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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS
FOR DECEMBER

EARLY RECOVERY EXPECTED FOLLOWING DRAMATIC PLUNGE DURING FOURTH QUARTER

Our monthly estimates of GNP suggest that industrial production is currently providing a better explanation of economic conditions than employment or retail sales. Industrial production already has declined 4.9% from the July peak, a rate of decrease that exceeds the average post-war recession. At annual rates, industrial production is falling 15% during the fourth quarter. By contrast, the index of hours worked is only expected to decline by 3.4%. Indeed, retail sales rose significantly in November, suggesting that consumer retrenchment may have been accelerated in October by the introduction of the All Savers certificates. Although consumers remain deeply depressed, a rebound in consumption following the All Savers is more than sufficient to offset the continuing reduction in consumer sentiment. Although this shift in consumer activity may be enough to save Christmas, it will not generate significant strength in the first quarter of 1982. Moreover, even with the current strengthening of consumer spending, consumption adjusted for price changes has declined about 3% in annual rates during the fourth quarter.

Of course the most significant shift in economic activity during the fourth quarter was in inventories. While sales fell as sharply as production in October retail sales increased in November even as industrial production was collapsing more sharply than it had in October. This means that inventory corrections did not develop until the beginning of November, but they have advanced with significant force since that time. Of course, construction is continuing to drop sharply while net exports may be swinging even lower than in the third quarter. Even non-defense capital shipments, a measure of spending for producers' durables, is falling nearly 12% at annual rates during the fourth quarter. When all of these weaknesses are combined, our estimates of real GNP showed a decline of 8.7% in annual rates in the quarter.

Inflation definitely is improving under this onslought of weakening economic activity. Prices of industrial commodities are rising less than [illegible]1/2% at annual rates. Moreover, food prices continue to drop sharply throughout the fall. Unfortunately the GNP deflator, which is partially being distorted by large military pay increases in October, is expected to rise more than 9% at annual rates. (If this estimate is incorrect, real GNP may not be declining as sharply as we calculated. However, the consumption deflator almost certainly increased more than 8% above third quarter averages at annual rates in the fourth quarter. Therefore, a GNP deflator growing less than 8% at annual rates is highly unlikely.) Following the fourth quarter the GNP deflator is expected to join other inflationary measures in showing a decided slowdown in prices from recent experience.

Although all current economic data show significant economic weakness, developments in the credit markets suggest that this near term slump should be relatively short lived. For example, growth of M1-B, which had been non-existent between May and September, has been growing at a 6% rate since that time. M2 growth, clearly being distorted by expansion of money market funds that are being held for portfolio purposes, has accelerated from 7% growth between April and September to a 12% growth since that time. Thus, money growth has been sufficient in recent months to support more than a 5% expansion in nominal GNP as compared to the current quarter. Interest rates have improved during this period of moderately accelerating money growth and sharply declining real economic activity. However, real improvement in interest rates has not been spectacular. Between September and December, rates on federal funds have improved about 3.5 percentage points. On commercial paper and certificates of deposit the rate has been a percentage point more favorable than that. Long-term interest rates have improved 1.5 percentage points at the normal 1 to 3 ratio in rates that occurs when an equity squeeze is reversed. These improvements are substantial when compared with historical conditions, but the magnitude of interest rate changes is not unusual for the monetary policy and economic conditions that have occured in the latest quarter. Moreover, an apparent modest uptick in nominal GNP during December following three months of decline has been accompanied by some firming in all interest rates. This suggests that the interest rate regime consistent with current economic conditions (because of savings and investment factors) remains unusually high. Therefore, the downward movement in interest rates, which should resume as growth in nominal GNP again slows momentarily after the Christmas season, is probably limited. Only a substantial change in savings-investment conditions could preserve the bond market rally beyond the first quarter of 1982. Such changes are not anticipated in 1982.

As explained in earlier reports, tax reductions on earnings generated from productive capital equipment are encouraging increases in investment activities for any given interest rate environment. If this increased demand for productive capital can be achieved by discouraging other forms of investment activity, then interest rates could conceivably decline. However, tax reductions are based on the aquisition of capital stock rather than its earnings. Furthermore, the natural growth in household formations will not permit an early reduction in housing expenditures in the absence of interest rate pressures. Therefore, a leftward shift in the gross investment schedule is not likely to develop in the next few years.

On the savings side, where government deficits are treated as an offset to gross savings, an early rightward early in the gross savings schedule is unlikely. First, the administration's economic program has generated a deficit financing position for troubled budgets even at normal utilization rates for economic resources. While spending reductions may alter budgetary financing prospects, possible political constraints appear to be diminishing such a solution. Second, most of the tax provisions which are designed to stimulate savings will displace more federal receipts than they will create in private savings during the next year or two. For example, the IRA accounts may grow as much as $30 billion in 1982. With a marginal tax on the median taxpayer of more than 30%, this expansion in IRA accounts will displace more than $9 billion of federal receipts. As IRA investments are illiquid, they will be especially attractive to those households without substantial need for liquidity. Presumably these households already have substantial financial holdings. Thus, the growth in IRA accounts will be almost totally achieved through portfolio readjustments with very little change in the growth of those porfolios. We assume only $3 billion of the IRA accounts will come from additions to those portfolios in 1982. Thus, the IRA program is a net cost of $6 billion in gross savings in the current year. Similar but less compelling arguments can be used for the Keough. In subsequent years, after a substantial portion of illiquid assets in household portfolios has been converted to IRA accounts, the savings response will be more substantial. By 1984, the IRA and Keough programs should be net providers of savings to the economy. If so, the savings schedule should be gradually shifting to the right over time. In 1982, however, the savings schedule, including government net savings, may actually be shifting to the left.

Finally, the very speed of economic contractions suggests that the economy is in another sharp but short recession. Although final demand certainly is dropping sharply, real economic activity appears to be dropping about 3 percentage points more than final demand. As a result, inventory excesses should be rapidly removed by the end of the first quarter. Unless final demand continues to fall sharply at that time, improving economic activity should develop at that time. Large tax cuts suggest that further erosion in consumer spending is unlikely beyond the first quarter. Recent improvement in interest rates should slow the rate of dissent, if not reverse the direction of interest sensitive activity. Thus, a modest bounce in construction activity should develop by the second quarter. While the trade position could deteriorate further because of the stubborn strength of the dollar, such weakness should become less pronounced as 1982 progresses. Therefore, a continuing collapse in final demand beyond the first quarter of 1982 is not likely. For that reason, the recession probably should end by the spring and could be followed by a short vigorous spurt in economic activity. At that time, however, interest rates should again begin to rise, choking off further significant expansion in interest sensitive activity by the end of the year.

Quarterly GNP Profile
(Percentage Changes)

	1981-III	1981-IV	1982-I	1982-II	1982-III
Real	1.4	-8.7	-2.7	3.6	7.9
Price	9.5	9.8	6.6	7.1	6.9
Nominal	11.0	0.2	3.7	11.2	15.3
Real Gross Private Domestic Product	1.5	-8.3	2.5	3.8	7.6

Monthly Statistical Highlights
for December 1981

Payroll employment, -164,000; index of hours worked, -0.3%; household employment, -132,000; unemployment, 8.7%; personal income, +0.4%; personal consumption, +0.6%; savings rate, 5.6%; retail sales, +0.8%; automobile sales, 7.3 million units; housing starts, -2.2%; housing permits, -2.9%; construction expenditures, -0.1%; business inventories, +0.1%; orders for durable goods, +2.0%; orders for nondefense capital goods, +3.0%; industrial production, -1.5%; CPI, +0.6%; PPI, +0.2%; consumption deflator, +0.6%; construction deflator, +0.5%; leading indicators, -0.2%; M1-B, +7.1%; M2, +11.0%.

Monthly Statistical Highlights
for January 1982

Payroll employment, -159,000; index of hours worked, -0.2%; household employment, -129,000; unemployment rate, 8.9%; personal income, +0.2%; personal consumption, +0.5%; savings rate, 5.4%; retail sales, +0.3%; automobile sales, 7.5 million units; housing starts, +1.1%; housing permits, +1.1%; construction expenditures, -0.4%; business inventories, +0.1%; orders for durable goods, +4.1%; orders for nondefense capital goods, +3.3%; industrial production, -0.2%; CPI, +0.4%; PPI, +0.5%; consumption deflator, +0.5%; construction deflator, +0.5%; leading indicators, +0.6%; M1-B, +2.2%; M2, +7.2%.

COMMENTARY

Employment

More than two-thirds of the 239,000 reduction in payroll employment during November was in manufacturing. Other areas of weakness were construction, where payrolls fell slightly more than 20,000, and retail trade, with an 85,000 drop in payrolls. The service economy actually experienced a slight expansion in total payrolls, but this is a pattern that usually develops during recessions. Moreover, the modest decline in hours worked in manufacturing suggests that further payroll erosion is probable in the next few months. Household employment fell a smaller 192,000. From its July peak, household employment has decreased by 937,000. By contrast, payroll employment has decreased from its September peak by 472,000. Therefore, continuing sharp decreases in payroll employment, with little further erosion in household employment, are possible in the months ahead.

After a surprising dip in participation rates for females in September, all measures of labor supply have returned to more normal conditions. With household employment expected to decline more slowly in the next few months and with participation rates expected to begin to reflect the slow growth that normally accompanies a declining economy, unemployment rates should move up much more slowly through the winter. Nevertheless, unemployment rates at 9.5% appear to be likely by June of 1982, when a peak in such rates is anticipated.

The hourly earnings index currently is 8.3% over previous year levels. While this number continues to improve, the latest three month weighted average has increased at an annual rate of 10.4% from the weight three months ago. This probably reflects the impact on escalator clauses from the acceleration in the

Consumer Price Index during the summer. If so, this rate is expected to moderate sharply during the winter months. Nevertheless, wage inflation continues to be a serious problem.

Personal Income and Outlays

The sharp increase in personal savings during October appears to reflect three basic forces. First, the All Savers Certificate, which requires household investments in excess of 16,000 in order to obtain all its benefits, appears to have created a one time increase in savings at annual rate in excess of $20 billion. Second, the 5% tax reduction was implemented on an accrual basis to October. Although withholding rates did fall to reflect the 5% change, tax reductions on non wage income will not be forthcoming until returns are filed in 1982. Therefore, measured tax reductions in October exceeded actual tax relief. This accrual factor probably added $5 billion to savings in the month. (The accrual of social security tax increases of January 1982 will lead to an abrupt drop in the savings rate at that time. For most wage earners, however, the impact on paychecks will be much smaller than the estimated social security tax in January). Third, actual tax reductions and the annual increase in government wages needed to be absorbed by households before consumption patterns were generated. This factor may have contributed another $5 billion to the savings rate in October. Thus, as much as $30 billion of the change in personal savings during October can be explained away by one time or special circumstances. Of course, the developing recession should be increasing the demand for "precautionary balances". Thus, some upward movement in the savings rate should be expected, but this movement appears to be more than fully reflected by the shift in savings during October. Indeed, the downward movement in savings in November to a 5.9% rate suggests that no fundamental shift in consumer savings patterns has yet emerged, contrary to the anticipations of supply-side economists.

Consumption and Retail Sales

While some economists have applauded the 0.8% increase in retail sales during November and the 1.0% gain in consumer outlays, this November performance should not be interpreted as an improvement in consumption behavior. As mentioned above, the All Savers certificate appears to have diverted funds from the consumption stream in October. Some funds also may have been diverted in November, but the All Savers certificate rapidly is becoming a non-event. A modest increase in consumer outlays should have been anticipated following the October surge in savings. Some modest further increases in consumer activity are anticipated in December, but many of these sales are being generated by substantial promotional activity by mass merchandisers. The Christmas volumes permit these merchandisers to reduce their margins in an effort to stimulate sales. Post Christmas promotions cannot be as aggressive. Therefore, a post Christmas slump in consumer activity still is possible.

Construction

On the surface the sharp increase in single-family housing starts during November may signal the bottom of the housing slump. Unfortunately, all the increase in activity occurred in the South, where the weather was mild and dry. This strongly suggests that weather related shifts in seasonal patterns rather than any fundamental change in construction activity were responsible for the November increase in housing starts. The modest decline in building permits during November appears to confirm this analysis. As we expect little growth in multi-family activity until late in 1982, primarily because the reduction in subsidized units will more than offset the gradual increase in non subsidized multi-family units until that time, total housing starts are not expected to show dramatic gains in 1982. Indeed, our current anticipations of housing activity are lower than our November forecast through the winter months. After that time, declining mortgage rates should begin to stimulate some increased housing activity. A dramatic increase in housing activity is not expected, however, as the mortgage rates are expected to remain near 15% for the entire construction season.

Changes in expenditures for private nonresidential construction during recent months have been extremely modest. This may suggest that the commerical building boom is beginning to subside. On the other hand, the Dodge construction reports continue to anticipate significant strength ahead. As economic conditions no longer justify the magnitude of commercial activity, we have reduced our estimates of private nonresidential activity from forecasted values of November. On the other hand, public construction has rebounded a little more vigorously than we expected. Although economic conditions will not be favorable for significant expansion in public construction, this rebound suggests that such activity may be a little stronger than we had anticipated.

Business Activity

The recent survey on capital expenditures anticipations clearly is at odds with the orders and backlog for nondefense capital goods. According to that anticipations survey, capital expenditures after inflation are expected to grow 1.8% in the first half of 1982. This would follow a modest down quarter during the fourth quarter. Shipments of nondefense capital goods already suggest that the fourth quarter will show considerably greater weakness than those surveys suggest. Moreover, orders currently are trailing shipments by almost $2 billion per month. This erosion of backlog almost certainly signals significant slowing in shipments ahead. For this reason we feel that the capital expenditures anticipations survey is meaningless at the present time. At the very least, a dramatic increase in orders would be necessary to approach the activity suggested by that survey. We are anticipating significant gains in orders for nondefense capital goods and for durable goods in the months ahead. Defense orders were unusually low at the beginning of the new fiscal year. Moreover, orders for industrial materials were decidedly less than anticipated in our November forecast. Even with this rebound in orders, however, backlogs are expected to continue to erode until the spring of 1982. Such an erosion almost always coincides with continuing weakness in shipments of durable goods and therefore in production. Because weakness in the fourth quarter already is pronounced, we are anticipating a modest uptick in shipments and production during the winter months but nowhere near the magnitude anticipated by the capital goods survey.

At the present time business inventories are only available for October. As expected they show a dramatic surge in total inventories. (This may explain why the flash estimates on GNP for the fourth quarter revealed only a 5.4% rate of decline. As more information on the erosion of business inventories in November and December are developed, fourth quarter estimates of GNP will be pulled downward). Most of the inventory problem is in the retail and wholesale areas. While manufacturing inventories appear to be close to desired levels, it must be remembered that finished goods that are not being sold constitute excess inventories of the plastics, lumber, metals, and other commodities which were used to build those final goods. The manufacturers of these materials will not learn of their inventory problem until the wholesalers and retailers begin to cancel orders. This is precisely the process that currently is developing. As of October, however, the adjustments had not yet commenced at the wholesale and retail levels.

It should also be noted that capacity utilization is falling more rapidly during this recession than in the recession a year ago. Indeed, utilization may approach the low levels reached in the 1975 recession. If so, investment activity could be more sluggish than we currently anticipate.

Prices

Despite our estimates of a high increase in the GNP deflator for the fourth quarter, the inflation performance is the bright spot in an otherwise dismal economic picture. Prices of consumer durables currently are above our November anticipations, but we are expecting that discrepancy to narrow and subsequently vanish by the spring. On the other hand, continued moderation in food inflation and more favorable energy inflation than we previously expected has led to a downward revision in prices for consumer nondurables. (We have not yet factored any inflationary impact from the Polish problem into our analysis. It does appear, however, that the Polish problem can lead to an extension of the European recession and a reduction in food shipments to the Soviet block. Thus, some deflationary forces may yet develop that are not anticipated in our price estimates). Even the deflator for consumer services is beginning to perform more favorably than had been anticipated in our November forecast. However, some of this improvement must be interpreted with caution. Utility prices deviated from their normal pattern this fall. This has led to lower estimates of energy inflation from the service components than is the fundamental case. Nevertheless, anticipated slowing in wage pressures should lead to more modest price changes for service components than had previously been anticipated.

Although the inflation picture is sharply improved, the construction deflator has been revised above November anticipations. Basically, producers of building materials have been sharply curtailing production for some time. As a result, existing inventories are very lean. When an unexpected seasonal spurt in housing activity develops, as occurred in the South during November, prices of construction materials begin to strengthen. Because of this weak inventory position, we felt that some upward revision in our construction deflator was warranted.

Miscellaneous

We clearly were surprised by the sharp deviation in the inventory valuations between our estimates and those that contained by the Department of Commerce for the third quarter. Apparently, a significant seasonal in the price adjustments used for that purpose existed in the summer quarter. We are continuing to work on an appropriate estimating procedure for IVA but do not yet feel confident that we are capturing the valuation component of inventories.

Merchandise trade balances are collapsing more rapidly than we had anticipated. The strong dollar clearly has reduced the competitiveness of American manufactured goods in the world. In addition, the prolonged European recession has reduced the flow of world trade. When markets are receding and our competitive position is eroding, significant reductions in our merchandise trade balances should not be surprising. What is surprising, however, is the speed by which our trade balances have adjusted to the changing competitive structure. Because of that adjustment, we have sharply increased our estimates of the trade balance deficit during the early part of 1982. We expect the current account to fall significantly into deficit during the fourth quarter of 1981 and remain in deficit throughout 1982. This will contrast sharply with the first three quarters of 1981, when the current account was more than $6 billion in surplus. This shift in trade balances should lead to some weakness in the dollar. Moreover, any disruption of grain flows could accentuate the weakness in trade balances. Surprisingly, the trade balances are procyclical during the latest cycle. Dollar weakness in 1979 and 1980 have led to significant improvement in the trade balances during the early part of 1981. The resulting strong dollar has caused the current trade erosion, which is coinciding with developing weakness in the domestic economy. Late in 1982 we would expect the trade balances to be improving even as the economy is expanding.

Financial Markets

As mentioned above, credit market performance in recent months is surprising not because interest rates are declining but because they are not declining as much as would be predicted by prevailing economic conditions. Commercial paper rates are falling much more sharply than rates for federal funds in recent months, suggesting that weakness in the economy rather than Federal Reserve policy has been responsible for what relief has developed. Rates on 90 day CD's have fallen even more sharply until recent weeks, suggesting that the reliquification of corporations which normally developed in the second stages of a recession has already advanced significantly.

What is puzzling at the current time is the acceleration in monetary aggregates. With federal funds lagging behind the sensitive rates, an infusion of reserves has not been responsible for the weakness in interest rates. Indeed, the monetary base dropped in October and only now is regaining our anticipated levels. Despite that decline, monetary aggregates expanded noticeably in October and November. Perhaps the dramatic increase in holdings of liquid assets in recent months reflects the normal flight to liquidity that occurs during recessions. As these liquid assets are more heavily weighted in the monetary aggregates than during previous times, the aggregates may be reflecting the economic weakness induced by this liquidity demand rather than reflecting an increase in the supply of liquidity. If so, the recent growth in the monetary aggregates may not be as significant to economic behavior as many economists anticipate. Clearly, the behavioral content of the current monetary aggreagates bears much closer scrutiny.

Stock Market

As we expected several months ago, the sharp drop in economic activity during the fourth quarter should sharply reduce operating profits. Fortunately, declining long term interest rates and continued moderation in commodity inflation are contributing both to an improvement in the quality of the profits that are earned and a reduction in the yields from alternative investments. Nevertheless, our stock market formula would suggest that a slight movement to the downside of stock prices is warranted. Of course, the market has moved contrary to these anticipations, probably in anticipation of improving economic conditions in the months ahead. Although we share the belief that economic conditions will begin to improve by spring, our formula suggests that the stock market has not fully evaluated the current deterioration in corporate earnings. Moreover, the exceedingly low utilization levels that we are generating suggest that the market value of existing assets should be lowered. If so, the stock market should remain in the 800's through the first quarter of 1982. After that time, rising interest rates should be less substantial than continued commodity inflation moderation and sharply rising operating profits. The second half of 1982 continues to be a period of substantial potential for rising equity values.

12/22/81

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	91564	91564	108.9	108.9	99235	99235	7.6	7.6	137.7	137.7
June	91615	91615	108.7	108.7	98392	98392	7.3	7.3	138.4	138.4
July	91880	91880	109.4	109.4	98962	98962	7.0	7.0	139.0	139.0
August	91929	91901	109.4	109.2	98944	98944	7.2	7.2	140.6	140.7
September	91875	92033	108.4	108.6	98270	98270	7.5	7.5	141.0	141.5
October	91793	91798	109.0	108.4	98792	98217	7.9	8.0	142.0	143.1
November	91732	91561	108.8	108.2	98437	98025	8.1	8.4	142.9	144.0
December	91674	91397	108.6	107.8	98148	97892	8.3	8.7	143.8	144.8
January 1982	91655	91238	108.8	107.6	98525	97763	8.2	8.9	145.0	145.7
February	91679	91126	108.8	107.3	98648	97695	8.3	9.1	146.0	146.5
March	91709	91211	108.9	107.4	98705	97806	8.4	9.2	147.0	147.2
April	91726	91285	108.9	107.6	98766	98012	8.5	9.3	148.0	148.0
May	91788	91265	109.0	107.7	98846	98126	8.5	9.4	149.1	148.8
June	91844	91475	109.0	108.0	99001	98275	8.5	9.5	150.0	149.5
July	91985	91557	109.1	108.2	99106	98426	8.5	9.5	151.1	150.5
August	92096	91728	109.3	108.5	99123	98627	8.4	9.4	152.2	151.4
September	92234	91872	109.7	108.8	99206	98862	8.4	9.4	153.3	152.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	2.367	2.367	1.467	1.467	109.4	109.4	1.985	1.985	1.876	1.876
June	2.384	2.384	1.474	1.474	104.4	104.4	1.996	1.996	1.892	1.892
July	2.418	2.419	1.485	1.485	109.2	108.2	2.025	2.025	1.915	1.917
August	2.441	2.444	1.500	1.500	88.0	95.0	2.041	2.044	1.952	1.949
September	2.461	2.462	1.509	1.508	103.5	106.6	2.055	2.057	1.952	1.950
October	2.480	2.477	1.520	1.514	128.7	135.1	2.090	2.081	1.961	1.946
November	2.495	2.491	1.529	1.521	117.7	129.7	2.099	2.091	1.981	1.961
December	2.509	2.500	1.538	1.524	106.4	116.6	2.108	2.095	2.002	1.978
January 1982	2.519	2.508	1.547	1.531	110.4	112.8	2.119	2.100	2.009	1.987
February	2.532	2.517	1.558	1.535	105.1	103.8	2.128	2.105	2.023	2.001
March	2.547	2.532	1.570	1.544	100.0	103.4	2.140	2.116	2.040	2.013
April	2.565	2.549	1.581	1.555	97.4	100.7	2.155	2.128	2.058	2.027
May	2.586	2.564	1.591	1.565	97.0	102.0	2.170	2.138	2.073	2.036
June	2.607	2.580	1.602	1.577	94.1	97.7	2.185	2.150	2.091	2.052
July	2.637	2.611	1.615	1.590	135.2	137.7	2.244	2.209	2.109	2.071
August	2.655	2.631	1.629	1.604	131.3	135.2	2.255	2.224	2.124	2.089
September	2.673	2.653	1.644	1.620	128.4	138.0	2.266	2.241	2.138	2.103

Fore. = November Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	1825.7	1825.7	226.4	226.4	731.5	731.5	867.9	867.9	953.4	953.4
June	1841.6	1841.6	226.1	226.1	740.6	740.6	874.9	874.9	956.9	956.9
July	1864.7	1866.3	230.0	230.0	746.8	746.8	887.9	889.6	959.2	959.8
August	1901.1	1897.2	250.8	245.2	750.6	752.5	899.8	899.5	972.7	970.7
September	1900.1	1898.1	239.3	238.7	752.9	752.2	908.0	907.3	963.7	963.1
October	1908.8	1893.9	230.5	225.0	759.4	753.4	918.9	915.6	960.7	954.4
November	1928.5	1908.3	235.4	228.2	766.6	757.0	926.5	923.1	965.2	956.9
December	1948.5	1924.9	237.9	229.5	775.6	763.5	935.0	931.9	969.6	959.7
January 1982	1955.2	1933.6	239.5	232.5	772.5	762.4	943.2	938.7	967.5	959.3
February	1969.2	1947.2	239.0	235.4	778.5	766.3	951.7	945.5	969.3	961.4
March	1986.0	1958.0	241.2	235.4	784.6	769.2	960.2	953.4	972.4	961.6
April	2003.3	1972.1	245.9	237.7	788.9	774.4	968.5	960.0	974.4	962.5
May	2018.4	1980.2	248.3	237.1	793.6	776.0	976.5	967.1	974.3	960.0
June	2035.9	1995.9	250.7	241.5	798.9	780.0	986.3	974.4	976.8	961.5
July	2053.5	2014.3	252.6	245.9	803.1	785.6	997.8	982.8	979.5	964.9
August	2068.4	2031.3	253.0	247.8	807.3	792.0	1008.1	991.5	980.7	967.3
September	2081.6	2045.0	253.5	249.3	811.5	795.6	1016.6	1000.1	981.0	967.9

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	85.50	85.50	11.75	11.75	7.9	7.9	58.97	58.97	14.79	14.79
June	87.38	87.38	11.93	11.93	7.5	7.5	59.85	59.85	15.60	15.60
July	87.13	87.13	11.69	11.69	8.2	8.2	59.56	59.56	15.88	15.88
August	88.59	88.59	11.71	11.71	10.4	10.4	60.15	60.15	16.73	16.73
September	88.54	88.70	11.74	11.75	8.8	8.8	60.14	60.32	16.66	16.63
October	87.18	86.80	11.63	11.31	7.5	7.2	60.33	60.48	15.22	15.01
November	88.40	87.47	11.49	11.43	7.9	7.3	60.90	60.77	16.01	15.27
December	89.60	88.14	11.43	11.55	8.5	7.3	61.62	61.79	16.55	15.30
January 1982	89.63	88.40	11.50	11.40	8.6	7.6	61.37	61.20	16.76	15.80
February	89.69	89.05	11.53	11.42	8.3	7.7	61.85	61.51	16.31	16.12
March	90.27	89.28	11.69	11.39	8.3	7.7	62.33	61.74	16.25	16.15
April	91.46	89.97	11.73	11.45	8.8	7.8	62.67	62.16	17.06	16.36
May	92.15	90.03	11.85	11.47	9.0	7.7	63.05	62.29	17.25	16.27
June	93.05	90.87	11.93	11.54	9.3	8.0	63.47	62.61	17.65	162
July	93.22	91.83	11.93	11.63	9.1	8.2	63.80	63.06	17.49	17.14
August	93.61	92.56	12.01	11.70	9.2	8.3	64.14	63.57	17.46	17.29
September	94.16	93.03	12.14	11.77	9.2	8.4	64.47	63.86	17.55	17.40

Fore. = November Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	1.158	1.158	0.764	0.764	1.167	1.167	239.7	239.7	159.3	159.3
June	1.039	1.039	0.688	0.688	0.963	0.963	234.0	234.0	155.7	155.3
July	1.047	1.047	0.704	0.704	0.925	0.913	234.8	234.8	155.6	155.6
August	0.937	0.941	0.591	0.606	0.868	0.865	232.6	232.7	154.1	154.2
September	0.914	0.916	0.622	0.645	0.844	0.850	231.6	234.7	152.9	154.4
October	0.925	0.864	0.616	0.508	0.773	0.722	228.6	230.8	150.2	150.8
November	0.995	0.871	0.643	0.560	0.846	0.718	228.9	227.3	149.6	147.3
December	1.026	0.852	0.661	0.540	0.862	0.697	230.2	227.1	149.8	146.5
January 1982	0.993	0.861	0.648	0.561	0.860	0.705	231.2	226.3	149.7	145.3
February	1.026	0.902	0.670	0.595	0.855	0.741	230.9	227.2	148.8	145.3
March	1.026	0.955	0.668	0.626	0.865	0.793	233.6	228.9	149.7	145.5
April	1.093	1.020	0.709	0.682	0.903	0.852	235.5	232.0	150.0	146.6
May	1.140	1.087	0.755	0.726	0.968	0.941	237.8	236.4	150.5	148.5
June	1.187	1.162	0.798	0.759	1.025	1.002	240.1	241.9	151.0	151.2
July	1.203	1.213	0.802	0.817	1.043	1.083	243.6	248.2	152.3	154.3
August	1.228	1.266	0.835	0.853	1.072	1.053	246.5	253.9	153.2	156.8
September	1.292	1.289	0.880	0.846	1.127	1.072	250.0	259.1	154.5	159.2

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May	94.0	94.0	51.5	51.5	94.2	94.2
June	95.8	95.8	52.2	52.2	86.0	86.0
July	98.0	98.0	51.4	51.4	85.4	85.4
August	98.6	98.6	49.4	49.4	84.6	84.7
September	98.0	98.7	51.2	52.2	82.4	83.8
October	99.0	98.3	50.3	51.7	79.3	80.8
November	100.2	99.4	50.6	51.5	78.1	76.4
December	101.4	100.3	51.0	52.1	77.8	74.7
January 1982	102.0	100.9	51.2	52.4	78.0	73.0
February	101.5	101.3	50.6	53.0	78.8	72.9
March	102.9	102.0	51.1	53.2	79.6	73.7
April	103.3	102.8	51.3	53.0	80.9	76.2
May	104.0	103.6	51.6	52.7	82.2	80.1
June	104.6	104.2	52.0	52.9	83.5	84.8
July	105.2	105.0	51.8	53.3	86.6	89.9
August	105.8	105.5	51.5	53.8	89.2	94.6
September	106.5	106.3	51.7	54.4	91.8	98.4

Fore. = November Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durables Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	269.3	269.3	88.16	88.16	23.87	23.87	24.04	24.04
June	269.7	269.7	88.30	88.30	23.23	23.23	24.60	24.60
July	271.9	271.9	89.70	89.70	24.23	24.23	23.93	23.93
August	273.4	273.4	87.35	87.35	24.70	24.70	24.57	24.57
September	276.4	276.6	85.75	86.28	22.42	23.03	24.40	24.61
October	277.9	278.4	87.03	78.41	22.93	21.32	24.25	23.74
November	278.7	279.0	88.65	79.68	23.45	21.65	24.11	23.52
December	279.0	279.2	89.82	81.27	23.76	22.29	24.10	23.65
January 1982	279.3	279.5	91.26	84.63	24.12	23.02	24.15	23.78
February	279.5	280.0	92.85	86.28	24.53	23.46	24.45	23.96
March	280.3	280.3	95.24	88.95	25.16	23.79	24.82	24.18
April	281.0	280.6	94.23	91.23	25.05	24.52	24.90	24.29
May	281.6	281.1	94.05	91.72	25.19	24.26	24.95	24.32
June	282.2	281.8	95.03	92.86	25.36	24.49	25.00	24.56
July	283.2	282.5	95.46	94.63	25.25	25.06	25.17	24.81
August	284.1	283.3	96.29	96.47	25.42	25.68	25.26	25.03
September	285.1	284.3	98.23	97.68	25.73	25.82	25.35	25.21

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	490.3	490.3	3.94	3.94	152.7	152.7	80.0	80.0
June	494.2	494.2	4.11	4.11	152.9	152.9	79.2	79.7
July	498.1	499.1	4.23	4.23	153.8	153.9	80.0	80.0
August	501.7	502.5	4.42	4.42	153.6	153.6	79.6	79.6
September	507.2	508.1	4.35	4.21	151.8	151.8	78.7	78.7
October	511.5	513.0	4.46	4.42	150.9	149.6	77.8	76.9
November	512.9	514.4	4.54	4.50	150.5	146.5	77.2	74.5
December	513.7	514.9	4.62	4.60	150.0	143.9	76.5	72.8
January 1982	514.5	515.3	4.69	4.65	149.5	143.3	76.1	71.9
February	515.9	516.0	4.77	4.75	149.0	142.5	75.4	70.5
March	516.3	516.4	4.85	4.83	148.5	143.0	74.7	70.6
April	517.8	517.2	4.95	4.90	149.2	143.3	75.0	70.7
May	518.5	518.0	5.01	4.99	150.3	143.6	75.5	70.8
June	520.6	519.6	4.98	5.04	151.4	144.8	76.0	71.4
July	521.9	521.2	5.09	5.11	151.9	146.3	76.2	73.6
August	524.1	523.5	5.20	5.21	152.0	148.8	76.1	74.9
September	526.3	525.4	5.40	5.39	152.1	150.4	76.0	76.3

Fore. = November Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	269.0	269.0	268.9	268.9	304.1	304.1	142	142	1.9109	1.9103
June	271.3	271.3	269.9	269.9	304.7	304.7	142	142	1.9194	1.9206
July	274.4	274.4	271.3	271.8	306.0	306.2	141	141	1.9372	1.9406
August	276.5	276.5	271.2	271.2	307.0	307.0	137	137	1.9535	1.9525
September	279.3	279.3	271.7	272.3	307.1	307.2	135	134	1.9698	1.9701
October	281.2	279.9	273.8	274.0	311.5	308.8	133	130	1.9891	1.9889
November	282.9	281.3	275.1	274.5	312.4	309.1	132	129	1.9985	2.0009
December	284.6	282.7	277.3	275.3	313.1	310.5	130	126	2.0077	2.0126
January 1982	286.2	283.8	279.0	276.7	314.9	311.4	131	128	2.0195	2.0229
February	287.9	284.3	280.8	277.9	317.3	312.6	132	129	2.0330	2.0326
March	289.6	285.2	283.1	279.1	320.3	314.9	135	133	2.0476	2.0435
April	291.1	286.0	285.0	281.4	322.0	316.4	138	136	2.0592	2.0559
May	292.5	287.5	286.9	283.3	323.6	318.0	141	140	2.0710	2.0687
June	293.9	288.9	288.4	285.1	325.2	319.7	140	141	2.0828	2.0806
July	295.5	290.8	290.3	287.2	327.3	321.8	142	142	2.0963	2.0913
August	297.6	292.5	292.5	289.4	329.2	323.9	145	144	2.1095	2.1033
September	299.6	294.7	294.9	291.8	331.1	326.2	147	146	2.1224	2.1151

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	191.5	191.5	165.7	165.7	200.1	200.1	192.3	192.3	150.5	150.5
June	192.5	192.5	166.3	166.3	200.8	200.8	193.6	193.6	150.3	150.7
July	194.4	194.4	167.8	167.8	202.5	202.5	195.8	195.9	150.9	150.9
August	195.5	195.4	168.7	168.2	203.3	203.3	197.8	197.8	150.9	150.9
September	197.2	197.1	169.3	169.6	205.3	205.1	199.5	199.1	151.5	152.0
October	198.7	198.4	169.9	170.4	206.2	206.0	201.2	200.5	152.2	153.1
November	199.8	199.4	170.6	171.1	207.0	206.8	202.8	201.8	153.0	154.3
December	201.0	200.6	171.3	171.8	207.8	207.6	204.4	203.3	153.7	155.0
January 1982	202.1	201.6	172.2	172.5	208.5	208.2	206.0	204.8	154.4	155.8
February	203.2	202.5	173.2	173.4	209.4	209.0	207.1	206.0	155.2	156.4
March	204.2	203.6	174.3	174.2	210.3	210.0	208.3	207.2	156.0	157.3
April	205.6	204.9	175.3	175.1	211.9	211.4	209.7	208.5	157.0	158.3
May	207.2	206.3	176.3	176.1	213.3	212.7	211.3	210.0	158.0	159.2
June	208.4	207.6	177.2	177.2	214.7	214.1	212.9	211.4	159.0	160.0
July	209.6	208.7	178.3	178.3	215.5	215.0	214.3	212.9	159.9	160.9
August	210.9	210.0	179.2	179.3	216.2	215.9	216.3	214.5	160.9	161.9
September	212.2	211.3	180.1	180.2	217.0	216.8	218.0	216.2	161.8	162.8

Fore. = November Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	166.6	166.5	431.5	431.5	1743.4	1743.4	18.52	18.52	15.29	15.29
June	167.2	167.2	428.8	428.8	1749.3	1749.3	19.10	19.10	14.09	14.09
July	167.6	167.7	430.1	430.1	1760.9	1760.1	19.04	19.04	14.74	14.74
August	168.4	168.5	432.7	432.8	1777.2	1777.2	17.82	17.82	15.52	15.52
September	168.6	168.5	431.7	431.8	1786.6	1786.8	15.88	15.87	14.92	14.92
October	169.1	167.9	434.1	433.0	1797.6	1798.8	15.05	15.08	14.01	13.82
November	169.5	169.5	437.6	435.7	1812.5	1823.4	14.47	13.31	12.29	11.30
December	169.9	170.0	441.1	438.2	1827.0	1839.3	13.89	12.43	11.95	11.07
January 1982	170.5	170.5	439.8	439.0	1831.3	1850.0	13.06	11.53	11.53	10.72
February	171.7	171.3	440.7	441.1	1843.9	1862.6	12.01	10.46	11.36	10.19
March	172.9	172.6	441.6	443.1	1856.5	1875.9	11.80	10.75	11.37	10.65
April	173.8	173.8	446.5	446.2	1875.3	1890.7	12.48	11.29	11.76	11.25
May	174.7	174.5	449.8	448.3	1892.3	1902.3	13.46	11.78	11.90	11.79
June	175.6	175.5	453.0	450.6	1908.9	1915.9	14.45	12.41	12.01	12.68
July	176.7	176.7	454.9	453.4	1920.1	1931.0	15.26	13.63	12.78	12.93
August	177.9	177.5	455.5	455.9	1931.8	1943.5	15.82	14.25	13.29	13.41
September	179.1	178.5	455.2	458.4	1939.6	1956.4	16.26	14.79	13.38	13.85

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
May 1981	14.32	14.32	10.78	10.78	17.56	17.56	18.27	18.27	19.61	19.61
June	13.75	13.75	10.67	10.67	16.32	16.32	16.90	16.90	20.03	20.03
July	14.38	14.38	11.14	11.14	17.00	17.00	17.76	17.76	20.39	20.39
August	14.89	14.89	12.26	12.26	17.23	17.23	17.96	17.96	20.50	20.50
September	15.49	15.49	13.01	12.92	16.09	16.09	16.84	16.84	20.08	20.08
October	15.25	15.40	12.80	12.83	15.26	14.85	16.02	15.39	18.46	18.45
November	15.11	14.22	12.62	11.89	14.40	12.16	15.29	12.48	16.79	16.84
December	15.03	14.27	12.51	12.39	13.75	11.63	14.55	12.17	15.54	15.75
January 1982	14.63	13.75	12.14	12.26	12.96	10.95	13.72	11.49	15.26	15.06
February	14.37	13.29	11.78	11.70	11.75	10.27	12.68	10.68	15.00	14.11
March	14.29	13.52	11.69	11.70	11.62	10.86	12.41	11.42	14.75	14.25
April	14.38	13.65	11.72	11.77	12.36	11.22	12.99	12.03	13.85	14.53
May	14.40	13.89	11.79	12.04	13.55	11.69	14.28	12.28	14.99	14.72
June	14.45	14.03	11.85	12.26	14.85	12.48	15.82	13.16	15.80	15.11
July	14.52	14.16	11.94	12.48	15.36	13.65	16.11	14.05	17.23	16.12
August	14.63	14.39	12.07	12.73	15.97	14.22	16.90	14.72	18.29	16.89
September	14.72	14.62	12.16	12.95	16.43	14.85	17.23	15.37	18.87	17.43

Fore. = November Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
y 1981	-2441	-2441	135.1	135.2	2876	2875	1505	1505	25.4	25.4
ne	-2105	-2105	134.0	134.1	2900	2903	1511	1511	8.9	9.0
ly	-542	-542	134.5	134.1	2935	2934	1515	1512	19.6	17.4
gust	-4478	-4478	133.8	133.3	2959	2957	1515	1514	29.5	29.7
ptember	-1574	-1574	130.6	130.4	2947	2973	1496	1509	35.5	36.1
ctober	-1245	-4191	129.5	128.1	2960	2961	1488	1489	30.2	23.4
ovember	-1986	-3271	127.2	128.0	2991	2953	1497	1476	26.7	23.1
ecember	-2576	-2659	125.4	127.7	3009	2960	1499	1471	31.3	27.3
anuary 1982	-2352	-2062	123.9	128.5	3020	2965	1495	1466	25.2	24.0
ebruary	-2106	-2351	123.5	128.9	3034	2981	1492	1467	24.6	28.5
arch	-2797	-2242	124.6	129.6	3045	3009	1487	1473	24.0	32.5
pril	-2105	-2566	126.9	130.5	3072	3037	1492	1477	24.8	36.1
ay	-2609	-2371	129.5	131.4	3110	3062	1502	1480	25.9	38.5
une	-2094	-2180	132.8	132.9	3152	3096	1513	1488	26.1	36.9
uly	-1092	-1096	135.1	134.3	3178	3140	1516	1502	29.5	38.7
ugust	-2068	-1985	136.8	134.1	3195	3178	1515	1511	31.8	40.9
September	-2378	-2067	137.1	134.5	3217	3211	1516	1518	32.0	43.8

Fore. = November Forecast
C.E. = Current Expectations

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GSU
Economic
Forecasting
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MONTHLY PROJECTIONS
FOR JANUARY

DESPITE WINTER DISTORTIONS
BOND MARKET WINDOW BEGINS TO OPEN

This delayed commentary on the monthly projections will not take the normal format, as some of our monthly series continue to be revised on the basis of new annual benchmarks. We expect to complete the revision for our February monthly projections, which will be available in about two weeks. However, three topics will be discussed at this time: the President's budget, the distortions that a severe weather pattern in January is generating both for monthly economic data and the pattern of this recession, and an explanation of the recent turmoil in credit markets. Obviously, these three items are interrelated, but the most interesting factor, financial market performance, will be discussed while alluding to the other two categories prior to analysis of those topics.

FINANCIAL MARKETS

As the GNP figures for the fourth quarter clearly show, economic activity in the private nonfarm economy fell a sharp 7.3%. Moreover, the preliminary figures were developed prior to the announcement of a sharp drop in the inventories during December. This suggests that downward revisions in GNP, in productivity, and in corporate profits are likely when the new GNP report is released. Even in terms of the old report, corporate cash flow fell by more than $12 billion. This unanticipated liquidity squeeze led to significant borrowing pressures in the banking system. Normally, a corporate liquidity squeeze is a precursor of significant inventory liquidations. Once inventory liquidations begin in earnest, corporate liquidity stabilizes, even as corporate profits continue to decline. While inventories entered a liquidation phase in December, the sharp decline in business sales was so abrupt that cash flow could not be improved. In January, bad weather caused further pressures upon corporate liquidity, as final sales were restrained by weather problems and as salaried employees continued to receive their paychecks despite the absence of production. Our estimates show that business sales fell as sharply as business activity, leading to minimal further inventory liquidations in January. As the weather began to improve, corporations resumed inventory liquidations and escalated their movement toward improved liquidity.

At the same time, households began to experience a modest liquidity squeeze of their own. The savings rate dipped by a half percentage point in December. Because the January weather pattern disrupted the earnings of hourly employees, personal income grew more slowly than normal consumer outlays. Furthermore, very difficult temperature conditions required unanticipated consumption of utilities. Some of these purchases will be paid with February utility bills but, nevertheless, household savings fell nearly another 0.5 percentage points in January. Household savings are apparently continuing to fall in February. Thus, the deterioration of household liquidity coincided with the liquidity pressures of corporations.

The above discussion explains why short-term interest rates trended upward despite significant reductions in industrial production. Our measure of interest rate changes indicates that pressures began in the banking system, then moved to commercial paper, and finally to federal funds. Thus, the money explosion that worried the marketplaces in January was induced by the liquidity pressures working though the commercial banking system. To a large extent the explosion in money was a measure of weakness as corporations were required to increse their compensating balances in order to activate the credit lines necessary to meet their short-term cash requirements.

If this analysis is correct, money growth should moderate moticeable as soon as liquidity pressures in the corporate sector ease. Moreeover, short-term interest rates should begin to trend downward as soon as household savings begin to recover following their dramatic late fall and early winter declines. Our monthly projections strongly suggest that both conditions already are beginning to develop. For that reason, it appears that a new borrowing window is opening up in the credit markets at the present time. While this improving interest rate pattern could presage the beginning of a bull market in bonds, such a conclusion does not yet appear to be valid. As interest rates begin to trend downward, economic activity will slowly improve. Inventory liquidiations should reach their maximum degree by March. While rising economic activity will initially aid the reliquification of the corporate sector, permitting a continuation of downward trending interest rates through much of the second quarter, the reliquification process is expected to reach its maximum within the spring quarter.

Normally, a return to inventory accumulations would have only minor upward impact upon short-term interest rates and little impact upon long-term rates. However, looming government deficits should distort this normal pattern. Our estimates show that the federal deficit on a national income accounts basis will approach $125 billion in the third quarter. We are also anticipating that inventories will begin their accumulation phase during the third quarter. While consumer savings may rise sharply (to alleviate some of this credit pressure), upward pressure upon interest rates appears to be almost certain at that time. Therefore, near-record interest rates may reappear during the summer months. For this reason, we currently anticipate that an improving bond market will only provide a short window in which to extend maturities. By the middle of this spring, the corporate calendar may be very heavy.

While the stock market should find some encouragement from declining interest rates, even if they are only temporary, it is not yet clear that equity values fully measure the deteriorating liquidity circumstances of the corporate sector. After earnings surprises for the fourth quarter and the winter are indluded in analysts' expections, then improving interest rates should permit improvement in equity values. However, no sustained improvement in such values appears warranted in 1982. A stock market peak near 950 on the Dow should be reached by mid-summer, although significant correction from that level late in the year is not anticipated.

THE BUDGET

A detailed analysis of the President's budget submission is not contemplated here. However, a five-year budget projection which shows that deficits will remain above previous record levels and only decline slightly has upset the credit markets. At a very minimum, the projections deny any significant supply-side response from the recently enacted tax cuts. Since the supply-side response was a major reason for enacting those reduction, questions easily can be raised concerning whether such tax cuts should be rescinded. (This is not being advocated here, although the refusal to consider consumption oriented tax increases clearly is not justified by the budget projections.) Moreover, the proposals almost certainly represent minimum deficits, at least in the early years of the five-year projections.

In the special analysis "B" pamphlet accompanying the budget of the United States, a surprising stability of corporate profit tax accruals as a share of GNP in FY 1983 is largely explained away as reflecting the volatlity of corporate profitability. Indeed, a decline in the share of GNP paid in corporate taxes from 2.4% in 1981 to a projected 2.3% in 1983 is explained as reflecting a decline in corporate profits relative to GNP, a narrowing of the corporate profits tax base because of enhanced depreciation allowances, and reductions in effective tax rates on corporate profits. None of these points are disputed. Rather, the quarterly profile of corporate profits tax accruals shows a surprising leap from $63.9 billion in the fourth quarter of 1982 to $80.4 billion in the first quarter of 1983. None of the above explanations justify this surge. Rather, this $15 billion increase in corporate tax projections results from chagnes in required estimated payments, in tax provisions for goods under construction, and in coinsurance tax liabilities. If these changes are not enacted, as we expect, then the FY 1983 deficit is understated by more than $12 billion and the FY 1984 deficit and beyond are incorrectly measured. If these significant increases in corporate taxes are enacted, the improvement in corporate liquidity and in investment activity anticipated by the administration cannot be attained.

Other receipt estimates that appear suspect are the continuing rising dollars for indirect business taxes despite declines in crude petroleum prices. The windfall profits tax clearly falls so long as crude petroleum prices are declining. Based upon our estimates of crude petroleum prices, indirect business taxes may be overstated by $4 billion in FY 1983. Also, a proposal to move federal employees into the medical portion of social security, and have them contribute, raises contributions for social insurance. The enactment of this provision clearly is suspect.

Even if the President achieves most of the proposed budget cuts, government expenditures for FY 1983 appear to be understated in at least three major categories. First, nondefense purchases of goods and services, which include the operating bills paid by government, are expected to decline by $5.2 billion. The major sources of this decline are anticipated liquidations of loans outstanding by the Commodity Credit Corporation and the lowest purchases by the Department of Commerce since 1977. Of course, liquidation of loans at the Commodity Credit Corporation could develop, but not with the food prices incorporated in the administraton's inflation projections used to justify the economic projections. If food inflation is falling as significantly as that projection shows, liquidations of Commodity Credit Corporation loans not only are not feasible, but additions to those loans currently outstanding are almost inevitable.

Much of the decline in the subsidy less current surplus of government enterprises expected for FY 1983 also reflects the Commodity Credit Corporation. However, a surprising surplus generated by the Federal Housing Administration, based upon increased rental for public housing appear to be very unlikely. Moreover, the projected deficit for the Federal Savings and Loan Insurance Corporation probably will fall far short of needs even if the administration's interest rate forecasts are realized.

Finally, even the growth in interest payments from 2.3% of GNP in 1981 to 2.8% of GNP in 1983 may prove to be too small.

Denial of the corporate tax changes the shift in federal employees to social security health programs, and the use of more realistic assumptions for receipts from windfall profits would lower the FY 1983 receipts by nearly $20 billion. More realistic assumptions for purchases of nondefense goods and services, for interest payments, and for government subsidies, should increase expenditures by about $15 billion. Therefore, the deficit on a national income accounts basis, which the administration places at $101.9 billion in FY 1983 (up from $100.4 FY 1982) could be off by $35 billion. These numbers are even more disastrous than those contained in the latest GSU forecast. Even if the administration is absolutely correct, the national income account deficit becomes larger in the FY 1983 recovery year than in the FY 1982 recession. Under such circumstances interest rates must rise relative to what they otherwise would be. (On the other hand, they otherwise would be trending down sharply. Therefore, interest rates can show some downward pressures even under such misguided government financing of its budgetary needs).

THE WINTER

Both the unemployment decline in Janaury and the sharp drop in January's industrial production clearly demonstrate that the winter weather will create enormous distortions in the timing of economic activity. As mentioned above, we feel these distortions have influenced credit markets. They will also create surprising patterns for monthly economic data. First, the reported modest rebound in auto sales in the first ten days of February probably reflects the recapturing of sales lost in January as well as a modest response to rebates. Retail sales in February should be rising, possibily sharply. Second, the sharp drop in the workweek induced by the bad weather will overwhelm all other factors in the leading indicators for January. Even with significant gains in building permits and in the money supply, the leading indicators for January probably will be declining by more than 1.5%. In February, when the sharp decline in hours is reversed, leading indicators may surge by more than a percentage point. Third, the weather related drop in the labor force during January will be reversed by a sharp rise in jobseekers during February. The unemployment rate probably will shoot up to 9% in that month. Fourth, the winter weather has distorted animal slaughtering patterns and impacted produce and orange juice production. These factors are now being reflected in the price indices for January and February. Food prices should begin to moderate after that period.

Of course, all the construction statistics will show significant declines in January, followed by a rebound during February. The dramatic decline in industrial production during January may be followed by a slight increase in industrial production during February. More normal declining patterns would be expected to resume in March and continue until the recession gradually ends.

We expect to have a clearer picture of the impact of these weather related influences upon our monthly GNP projections in our next report. However, our preliminary estimates show a dramatic drop in real GNP during January followed by a significant rebound in February. Little change then is expected in March or April until a definite upward movement in activity begins to develop in June. Our current estimates suggest that the low point of economic activity may have occurred in January. As this was a weather related disruption in a downtrend, recessionary numbers should persist for several more months. If so, the credit market window may remain open a little longer than we anticipate in our projections. Ultimately, however, incorrect budgetary financing is expected to shut the window before the beginning of summer.

2/22/82

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	91615	91615	108.7	108.7	98392	98392	7.3	7.3	138.4	138.4
July	91880	91880	109.4	109.4	98962	98962	7.0	7.0	139.0	139.0
August	91929	91901	109.4	109.2	98944	98944	7.2	7.2	140.6	140.7
September	91875	92033	108.4	108.6	98270	98270	7.5	7.5	141.0	141.5
October	91793	91832	109.0	108.4	98792	98217	7.9	8.0	142.0	141.9
November	91732	91499	108.8	107.9	98437	98025	8.1	8.4	142.9	143.2
December	91674	91206	108.6	106.9	98148	97188	8.3	8.9	143.8	143.3
January 1982	91655	91265	108.8	106.1	98525	97310	8.2	8.8	145.0	144.7
February	91679	91079	108.8	106.3	98648	97191	8.3	9.1	146.0	145.5
March	91709	90894	108.9	106.0	98705	97046	8.4	9.3	147.0	146.5
April	91726	90926	108.9	106.1	98766	97269	8.5	9.3	148.0	147.4
May	91788	91067	109.0	106.5	98846	97552	8.5	9.3	149.1	148.4
June	91844	91213	109.0	106.8	99001	97914	8.5	9.2	150.0	149.3
July	91985	91376	109.1	107.2	99106	98198	8.5	9.1	151.1	150.2
August	92096	91485	109.3	107.5	99123	98311	8.4	9.2	152.2	151.2
September	92234	91629	109.7	107.8	99206	98554	8.4	9.2	153.3	152.1
October	92354	91829	109.9	108.3	99462	98855	8.4	9.1	154.3	153.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	2.384	2.384	1.474	1.474	104.4	104.4	1.996	1.996	1.892	1.892
July	2.418	2.419	1.485	1.485	109.2	109.3	2.026	2.026	1.915	1.916
August	2.441	2.443	1.500	1.500	88.0	97.7	2.041	2.043	1.952	1.946
September	2.461	2.463	1.509	1.510	103.5	113.7	2.055	2.057	1.952	1.944
October	2.480	2.474	1.520	1.518	128.7	130.7	2.090	2.079	1.961	1.948
November	2.495	2.488	1.529	1.526	117.7	126.3	2.099	2.089	1.981	1.963
December	2.509	2.492	1.538	1.525	106.4	115.5	2.108	2.092	2.002	1.976
January 1982	2.519	2.498	1.547	1.529	110.4	102.9	2.119	2.096	2.009	1.993
February	2.532	2.514	1.558	1.539	105.1	99.1	2.128	2.108	2.023	2.009
March	2.547	2.527	1.570	1.545	100.0	104.5	2.140	2.118	2.040	2.014
April	2.565	2.543	1.581	1.555	97.4	100.3	2.155	2.130	2.058	2.030
May	2.586	2.564	1.591	1.570	97.0	98.0	2.170	2.146	2.073	2.048
June	2.607	2.583	1.602	1.582	94.1	102.2	2.185	2.160	2.091	2.058
July	2.637	2.619	1.615	1.596	135.2	144.4	2.244	2.221	2.109	2.077
August	2.655	2.640	1.629	1.610	131.3	135.7	2.255	2.237	2.124	2.101
September	2.673	2.659	1.644	1.623	128.4	134.9	2.266	2.251	2.138	2.116
October	2.700	2.683	1.665	1.642	131.8	135.2	2.290	2.270	2.158	2.135

Fore. = November Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	1841.6	1841.6	226.1	226.1	740.6	740.6	874.9	874.9	956.9	956.9
July	1864.7	1865.6	230.0	230.0	746.8	746.8	887.9	888.8	959.2	959.4
August	1901.1	1894.3	250.8	245.2	750.6	752.5	899.8	896.6	972.7	969.3
September	1900.1	1891.7	239.3	233.4	752.9	754.6	908.0	903.8	963.7	959.7
October	1908.8	1895.3	230.5	226.3	759.4	755.2	918.9	913.7	960.7	955.3
November	1928.5	1909.7	235.4	226.4	766.6	761.4	926.5	921.8	965.2	958.3
December	1948.5	1923.7	237.9	226.3	775.6	766.2	935.0	931.2	969.6	961.3
January 1982	1955.2	1941.0	239.5	232.9	772.5	764.8	943.2	943.3	967.5	964.2
February	1969.2	1956.7	239.0	230.2	778.5	771.8	951.7	954.7	969.3	966.0
March	1986.0	1961.0	241.2	228.6	784.5	773.6	960.2	958.8	972.4	962.3
April	2003.3	1976.4	245.9	230.5	788.9	779.0	968.5	966.9	974.4	963.8
May	2018.4	1994.2	248.3	234.3	793.6	786.3	976.5	973.6	974.3	966.7
June	2035.9	2003.6	250.7	239.4	798.9	784.8	986.3	979.4	976.8	965.6
July	2053.5	2021.9	252.6	242.0	803.1	793.4	997.8	986.5	979.5	968.5
August	2068.4	2045.8	253.0	250.0	807.3	800.1	1008.1	995.7	980.7	974.6
September	2081.6	2060.4	253.5	252.8	811.5	803.0	1016.6	1004.6	981.0	974.9
October	2101.2	2078.5	256.8	256.9	817.6	808.5	1026.8	1013.1	984.4	978.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	87.38	87.38	11.93	11.93	7.5	7.5	59.85	59.85	15.60	15.60
July	87.13	87.13	11.69	11.69	8.2	8.2	59.56	59.56	15.88	15.88
August	88.59	88.59	11.71	11.71	10.4	10.4	60.15	60.15	16.73	16.73
September	88.54	88.70	11.74	11.75	8.8	8.7	60.14	60.32	16.66	16.63
October	87.18	86.66	11.63	11.38	7.5	7.2	60.33	60.34	15.22	14.94
November	88.40	87.23	11.49	11.39	7.9	7.3	60.90	60.73	16.01	15.11
December	89.60	87.54	11.43	11.60	8.5	7.3	61.62	60.93	16.55	15.01
January 1982	89.63	88.21	11.50	11.46	8.6	7.8	61.37	60.82	16.76	15.93
February	89.69	88.45	11.53	11.45	8.3	7.6	61.85	61.38	16.31	15.62
March	90.27	88.40	11.69	11.47	8.3	7.5	62.33	61.52	16.25	15.41
April	91.46	89.05	11.73	11.45	8.8	7.6	62.67	61.95	17.06	15.65
May	92.15	90.08	11.85	11.41	9.0	7.8	63.05	62.53	17.25	16.14
June	93.05	90.56	11.93	11.52	9.3	8.1	63.47	62.41	17.65	16.63
July	93.22	91.55	11.93	11.66	9.1	8.2	63.80	63.09	17.49	16.80
August	93.61	93.02	12.01	11.78	9.2	8.7	64.14	63.62	17.46	17.62
September	94.16	93.58	12.14	11.90	9.2	8.8	64.47	63.85	17.55	17.83
October	95.27	94.50	12.40	12.04	9.3	9.0	64.96	64.29	17.92	18.17

Fore. = November Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	1.039	1.039	0.688	0.668	0.963	0.963	234.0	234.0	155.7	155.7
July	1.047	1.047	0.704	0.704	0.925	0.913	234.8	233.9	155.6	155.0
August	0.937	0.941	0.591	0.606	0.868	0.865	232.6	229.8	154.1	152.4
September	0.914	0.916	0.622	0.645	0.844	0.850	231.6	230.9	152.9	151.9
October	0.925	0.864	0.616	0.508	0.773	0.722	228.6	229.9	150.2	150.2
November	0.995	0.860	0.643	0.560	0.846	0.723	228.9	231.6	149.6	148.5
December	1.026	0.899	0.661	0.588	0.862	0.789	230.2	229.3	149.8	145.0
January 1982	0.993	0.894	0.648	0.559	0.860	0.836	231.2	224.2	149.7	142.3
February	1.026	1.043	0.670	0.718	0.855	0.873	230.9	231.4	148.8	146.4
March	1.026	0.995	0.668	0.697	0.865	0.867	233.6	232.4	149.7	146.8
April	1.093	1.026	0.709	0.736	0.903	0.901	235.5	234.9	150.0	147.5
May	1.140	1.135	0.755	0.814	0.968	0.916	237.8	237.2	150.5	148.2
June	1.187	1.192	0.798	0.872	1.025	0.963	240.1	239.0	151.0	148.6
July	1.203	1.246	0.802	0.943	1.043	1.026	243.6	244.9	152.3	151.6
August	1.228	1.302	0.835	1.001	1.072	1.094	246.5	250.6	153.2	154.1
September	1.292	1.305	0.880	0.967	1.127	1.102	250.0	254.0	154.5	155.7
October	1.342	1.278	0.937	0.952	1.183	1.093	253.5	257.3	155.6	157.0

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	95.8	95.8	52.2	52.2	86.0	86.0
July	98.0	99.4	51.4	51.6	85.4	82.9
August	98.6	100.0	49.4	49.3	84.6	80.5
September	98.0	100.1	51.2	52.2	82.4	78.5
October	99.0	100.0	50 3	51.6	79.3	78.2
November	100.2	101.1	50.6	52.4	78.1	78.1
December	101.4	98.4	51.0	52.0	77.8	78.9
January 1982	102.0	97.6	51.2	50.7	78.0	75.9
February	101.5	100.5	50.6	52.8	78.8	78.1
March	102.9	100.4	51.1	51.7	79.6	80.3
April	103.3	101.3	51.3	52.2	80.9	81.4
May	104.0	102.0	51.6	52.5	82.2	82.7
June	104.6	102.6	52.0	52.3	83.5	84.1
July	105.2	103.5	51.8	53.0	86.6	88.4
August	105.8	104.1	51.5	53.3	89.2	93.2
September	106.5	104.7	51.7	53.7	91.8	95.6
October	107.2	105.5	51.9	54.0	94.3	97.8

Fore. = November Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durables Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	269.7	269.7	88.30	88.30	23.23	23.23	24.60	24.60
July	271.9	271.9	89.70	89.70	24.23	24.23	23.93	23.93
August	273.4	273.4	87.35	87.35	24.70	24.70	24.57	24.57
September	276.4	276.6	85.75	86.28	22.42	23.03	24.40	24.61
October	277.9	278.4	87.03	77.80	22.93	21.00	24.25	23.53
November	278.7	279.5	88.65	79.96	23.45	23.81	24.11	24.43
December	279.0	277.2	89.82	80.18	23.76	22.81	24.10	24.46
January 1982	279.3	277.0	91.26	79.93	24.12	22.65	24.15	23.72
February	279.5	278.1	92.85	83.45	24.53	23.68	24.45	24.85
March	280.3	279.0	95.24	83.17	25.16	23.65	24.82	24.43
April	281.0	280.3	94.23	86.05	25.05	24.29	24.90	24.61
May	281.6	281.5	94.05	87.12	25.19	24.53	24.95	24.92
June	282.2	282.1	95.03	89.62	25.36	24.79	25.00	24.78
July	283.2	282.5	95.46	91.26	25.25	25.15	25.17	25.01
August	284.1	283.6	96.29	90.43	25.42	25.02	25.26	25.23
September	285.1	284.0	98.23	90.76	25.73	24.76	25.35	25.15
October	286.4	284.9	99.49	93.28	25.93	25.43	25.47	25.42

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	494.2	494.2	4.11	4.11	152.9	152.9	79.2	79.7
July	498.1	498.1	4.23	4.23	153.8	153.9	80.0	80.0
August	501.7	502.5	4.42	4.42	153.6	153.6	79.6	79.6
September	507.2	508.1	4.35	4.21	151.8	151.6	78.7	78.7
October	511.5	511.7	4.46	4.34	150.9	149.2	77.8	76.6
November	512.9	515.1	4.54	4.50	150.5	146.4	77.2	74.8
December	513.7	512.7	4.62	4.57	150.0	143.3	76.5	72.9
January 1982	514.5	511.8	4.69	4.60	149.5	139.1	76.1	70.0
February	515.9	513.0	4.77	4.69	149.0	139.8	75.4	70.5
March	516.3	515.3	4.85	4.75	148.5	139.5	74.7	70.0
April	517.8	517.0	4.95	4.84	149.2	139.8	75.0	70.1
May	518.5	519.6	5.01	4.93	150.3	140.5	75.5	70.4
June	520.6	520.7	4.98	5.03	151.4	141.5	76.0	71.1
July	521.9	522.3	5.09	5.22	151.9	142.7	76.2	72.0
August	524.1	524.0	5.20	5.35	152.0	143.8	76.1	72.9
September	526.3	525.8	5.40	5.36	152.1	144.7	76.0	73.7
October	528.7	527.3	5.49	5.42	152.6	145.8	76.4	74.3

Fore. = November Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods (unadjusted)		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	271.3	271.3	269.9	270.5	304.7	305.1	142	142	1.9194	1.9206
July	274.4	274.4	271.3	271.8	306.0	306.2	141	141	1.9372	1.9414
August	276.5	276.5	271.2	271.5	307.0	307.2	137	137	1.9535	1.9542
September	279.3	279.3	271.7	271.5	307.1	307.4	135	134	1.9698	1.9727
October	281.2	279.9	273.8	274.0	311.5	308.8	133	130	1.9891	1.9859
November	282.9	280.7	275.1	274.5	312.4	309.1	132	130	1.9985	1.9973
December	284.6	281.5	277.3	275.3	313.1	310.1	130	128	2.0077	2.0042
January 1982	286.2	281.8	279.0	277.4	314.9	311.7	131	130	2.0195	2.0155
February	287.9	283.1	280.8	278.5	317.3	312.9	132	132	2.0330	2.0266
March	289.6	284.5	283.1	279.9	320.3	314.3	135	135	2.0476	2.0373
April	291.1	286.3	285.0	281.1	322.0	316.0	138	136	2.0592	2.0490
May	292.5	287.7	286.9	282.5	323.6	317.6	141	140	2.0710	2.0612
June	293.9	289.1	288.4	283.9	325.2	319.4	140	141	2.0828	2.0741
July	295.5	290.9	290.3	285.1	327.3	321.2	142	141	2.0963	2.0872
August	297.6	292.5	292.5	287.0	329.2	323.6	145	142	2.1095	2.0986
September	299.6	294.6	294.9	288.7	331.1	324.7	147	145	2.1224	2.1101
October	301.5	296.4	296.9	291.6	333.4	326.1	144	144	2.1394	2.1252

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	192.5	192.5	166.3	166.3	200.8	200.8	193.6	193.6	150.3	150.3
July	194.4	194.4	167.8	167.8	202.5	202.5	195.8	195.9	150.9	150.9
August	195.5	195.4	168.7	168.2	203.3	203.3	197.8	197.8	150.9	150.8
September	197.2	197.1	169.3	169.1	205.3	205.2	199.5	199.1	151.5	152.0
October	198.7	198.4	169.9	170.1	206.2	205.8	201.2	200.7	152.2	153.1
November	199.8	199.3	170.6	170.3	207.0	206.1	202.8	202.2	153.0	156.0
December	201.0	200.1	171.3	170.3	207.8	206.4	204.4	203.7	153.7	158.1
January 1982	202.1	201.3	172.2	171.0	208.5	207.8	206.0	205.1	154.4	157.6
February	203.2	202.5	173.2	170.9	209.4	209.4	207.1	206.3	155.2	158.0
March	204.2	203.8	174.3	171.8	210.3	210.7	208.3	207.5	156.0	158.3
April	205.6	205.1	175.3	173.0	211.9	212.1	209.7	208.7	157.0	159.2
May	207.2	206.3	176.3	173.9	213.3	213.6	211.3	209.9	158.0	160.0
June	208.4	207.5	177.2	175.0	214.7	215.0	212.9	211.2	159.0	160.8
July	209.6	208.8	178.3	176.0	215.5	216.2	214.3	212.6	159.9	161.5
August	210.9	209.9	179.2	176.9	216.2	217.3	216.3	214.1	160.9	162.6
September	212.2	211.4	180.1	177.8	217.0	218.7	218.0	215.8	161.8	163.1
October	213.5	212.5	181.0	178.9	218.1	219.6	219.6	217.2	162.9	163.9

Fore. = November Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	167.2	167.2	428.8	428.4	1749.3	1740.7	19.10	19.10	14.09	14.09
July	167.6	167.7	430.1	429.3	1760.9	1749.9	19.04	19.04	14.74	14.74
August	168.4	168.5	432.7	430.9	1777.2	1767.0	17.82	17.82	15.52	15.52
September	168.6	168.5	431.7	431.2	1786.6	1778.1	15.88	15.87	14.92	14.92
October	169.1	168.1	434.1	432.9	1797.6	1789.3	15.05	15.08	14.01	13.82
November	169.5	169.2	437.6	436.4	1812.5	1809.6	14.47	13.31	12.29	11.30
December	169.9	170.7	441.1	440.8	1827.0	1821.8	13.89	12.37	11.95	11.52
January 1982	170.5	171.8	439.8	448.7	1831.3	1839.3	13.06	13.22	11.53	12.83
February	171.7	172.5	440.7	448.3	1843.9	1845.4	12.01	14.63	11.36	14.16
March	172.9	173.0	441.6	449.5	1856.5	1855.9	11.80	12.72	11.37	12.51
April	173.8	174.0	446.5	452.6	1875.3	1870.6	12.48	11.95	11.76	11.43
May	174.7	174.9	449.8	454.9	1892.3	1885.7	13.46	12.83	11.90	12.36
June	175.6	175.6	453.0	455.7	1908.9	1892.8	14.45	14.05	12.01	13.14
July	176.7	176.5	454.9	458.0	1920.1	1908.0	15.26	14.93	12.78	14.08
August	177.9	177.3	455.5	459.9	1931.8	1921.6	15.82	14.65	13.29	14.01
September	179.1	178.0	455.2	462.6	1939.6	1938.5	16.26	13.92	13.38	13.42
October	180.2	178.6	457.7	463.5	1955.8	1948.0	17.09	13.88	13.65	13.16

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	13.75	13.75	10.67	10.67	16.32	16.32	16.90	16.90	20.03	20.03
July	14.38	14.38	11.14	11.14	17.00	17.00	17.76	17.76	20.39	20.39
August	14.89	14.89	12.26	12.26	17.23	17.23	17.96	17.96	20.50	20.50
September	15.49	15.49	13.01	12.92	16.09	16.09	16.84	16.84	20.08	20.08
October	15.25	15.40	12.80	12.83	15.26	14.85	16.02	15.39	18.46	18.45
November	15.11	14.22	12.62	11.89	14.40	12.16	15.29	12.48	16.79	16.84
December	15.03	14.23	12.51	12.90	13.75	12.12	14.55	12.49	15.54	15.75
January 1982	14.63	15.18	12.14	13.28	12.96	13.09	13.72	13.51	15.26	15.75
February	14.37	15.35	11.78	13.05	11.75	14.56	12.68	15.21	15.00	16.67
March	14.29	14.73	11.69	12.52	11.62	13.08	12.41	13.52	14.75	17.00
April	14.38	14.54	11.72	12.40	12.36	12.16	12.99	12.73	13.85	15.92
May	14.40	14.52	11.79	12.42	13.55	12.82	14.28	13.35	14.99	15.75
June	14.45	14.73	11.85	12.64	14.85	13.71	15.82	14.16	15.80	16.27
July	14.52	15.19	11.94	13.06	15.36	14.65	16.11	15.09	17.23	17.05
August	14.63	15.35	12.07	13.17	15.97	14.41	16.90	14.86	18.29	17.25
September	14.72	15.08	12.16	12.82	16.43	13.72	17.23	14.07	18.87	17.06
October	14.89	14.95	12.25	12.62	17.24	13.61	17.96	13.96	19.34	16.93

Fore. = November Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
June 1981	-2105	-2105	134.0	134.1	2900	2903	1511	1512	8.9	9.0
July	-542	-542	134.5	134.3	2935	2944	1515	1516	19.6	17.4
August	-4478	-4478	133.8	133.3	2959	2967	1515	1518	29.5	29.7
September	-1574	-1574	130.6	131.1	2947	2984	1496	1513	35.5	36.1
October	-1245	-4191	129.5	128.8	2960	2981	1488	1501	30.2	25.6
November	-1986	-3404	127.2	128.6	2991	2989	1497	1497	26.7	20.4
December	-2576	-695	125.4	129.4	3009	2985	1499	1489	31.3	20.6
January 1982	-2352	-3716	123.9	127.5	3020	2979	1495	1478	25.2	21.4
February	-2106	-2453	123.5	129.3	3034	3015	1492	1487	24.6	19.2
March	-2797	-2272	124.6	130.2	3045	3035	1487	1490	24.0	19.5
April	-2105	-2551	126.9	130.5	3072	3052	1492	1489	24.8	20.2
May	-2609	-2165	129.5	130.9	3110	3074	1502	1487	25.9	20.9
June	-2094	-2352	132.8	132.5	3152	3099	1513	1494	26.1	23.4
July	-1092	-1425	135.1	133.7	3178	3138	1516	1503	29.5	31.6
August	-2068	-1973	136.8	135.1	3195	3175	1515	1513	31.8	25.4
September	-2378	-2469	137.1	135.0	3217	3216	1516	1524	32.0	23.8
October	-2179	-2522	137.8	135.8	3246	3243	1518	1526	32.3	29.5

Fore. = November Forecast
C.E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS FOR FEBRUARY

CORPORATE LIQUIDITY SQUEEZE SHUTS BOND WINDOW IN A HURRY

Between mid-February and early March long-term government bonds rallied nearly ten points from 95 on 14% issues to nearly 105. The rally in municipal bonds was even more significant. Even the prime rate temporarily nudged down to 16% in early March for some banks. After two weeks of improving lender sentiment, the corporate calendar began to build. But by the Ides of March the bond market window had once again been shut.

That another bond market window quickly was shut by build-up in corporate issues is not surprising. However, the economic environment in which the bond market continues to resist substantial price improvement is unusal. The Producer Price Index in February actually declined by a small amount. We are now projecting that consumer prices will grow by less than 3% in February and may show little growth in March. As a result, the GNP price deflator slowed abruptly according to our current projections. None of this favorable price pattern has awakened the bond market. Apparently, the reduced consumer inflation is expected to reawaken consumer spending. According to our current estimates, personal savings plunged by more than $11 billion in February and the increased savings that were generated by the October tax reduction have now been completely erased. Until this increased consumer activity begins to become apparent, corporations are desperately reducing their desired levels of inventory. The cost of holding inventory depends not only upon financial charges but also upon the price changes that can be expected during the shelf-life of the goods. Now that industrial prices are largely unchanged, the storage costs of inventories have risen sharply. The effects of this change in price patterns is most apparent in the oil industry, where desired inventories are falling almost as rapidly as prices. However, most of the metals industries, the rubber industry, some textiles, machinery, and transportation equipment are experiencing substantial cost pressures in maintaining their inventories.

Some studies suggest that a downward shift in desired inventories creates both a reduction in production and reduced prices to meet the lower targets. While the adjustment is taking place, revenues per unit of sales are falling much more sharply than costs. Not only does this generate a substantial profits squeeze, but it also requires corporations to exercise previously unutilized long-term credit. While this adjustment could be devastating to firms who do not have balance sheets solid enough to withstand this liquidity shock, the studies also suggest that the adjustment process runs for only a few months. Therefore, corporations will probably reach their desired inventory levels before the end of the second quarter. At that time production will increase and prices will again rise in conformity will underlying operating costs. Corporate liquidity could improve dramatically during the second-half of 1982 under such conditions, although we are not ready to assume that such a pattern will develop. Indeed, our interest rate profile continues to show modest improvement through a relatively weak spring followed by sharp upward interest rate pressures when government borrowings become intense during the summer. In a few weeks we expect to complete a more substantial evaluation of the changing cash flow conditions of the household, government, and corporate sectors. At that time we may be prepared to break with consensus by assuming that interest rates could peak early in the summer months and then decline for the remainder of 1982. At the present time we are only willing to reduce our estimates of short-term interest rates on the average for the year.

Part of the hesitation in making a substantial shift in our interest rate forecast is the curious pattern of Treasury balances that appears to be developing this year. Virtually everyone assumed that the Treasury would need to borrow nearly $41 billion in the first quarter to finance the budget deficit. In fact, however, borrowings appear to be running at about $32 billion. The debt limitation bill, which was expected to require Congressional action by March or May at the latest now may be delayed until June. The interesting question is, what caused these sharp gains in Treasury balances? Several explanations have merit. First, may taxpayers who normally receive refunds early in the year have delayed their filing until they are assured that they have taken full advantage of the tax laws for 1981. They are becoming confused by the advertising which heralds tax benefits for 1982. Thus, refund checks are flowing more slowly out of the Treasury than normal. This factor clearly will be reversed in late March and April. Second, the Treasury misstated the quarterly borrowing needs associated with activity in the Commodity Credit Corporation. After expanding by nearly an $18 billion rate in the fourth quarter, farm loans are virtually nonexistent in the first quarter of 1982. No one expects that this pattern will last. Current crop anticipations suggests that near-record loan activity may be required in 1982. However, this will probably occur late in the year. Third, after February 1, the penalty for noncompliance for the estimated tax provision was increased from 12% to 20%. At the lower rate noncompliance was slightly profitable. The higher penalty is encouraging more taxpayers to provide a safety margin on their estimated returns. This factor is a one time downward adjustment which will lead to higher effective tax rates temporarily but will not substantially alter future revenues flows.

All the above arguments suggest that a large portion of the unexpected cash flow into the Treasury is temporary. While this delays the credit market impact of Treasury borrowings, it does not eliminate the problem. Indeed, some borrowings may have to be more intense in the latter half of the year, after economic recovery begins, than if the cash flow had never been distorted. Therefore, the borrowing needs of the federal government will conflict with private needs at a slightly later date than had originally been anticipated, but the conflict remains very significant.

Quarterly Profile of GNP

	1981-IV	1982-I	1982-II	1982-III	1982-IV
Real	-4.7	-4.1	2.0	3.0	4.3
Price	9.3	5.5	5.5	7.5	7.6
Nominal	4.1	1.1	7.7	10.8	12.2

Monthly Statistical Highlights for March 1982

Payroll employment, -42,000; index of hours worked, -0.2%; household employment, -44,000; unemployment rate, 9.1%; personal income, +0.6%; savings rate, 5.0%; personal consumption, +0.5%; retail sales, +0.2%; automobile sales, 8.0 million units; housing starts, -7.7%; housing permits, -2.0%; construction expenditures, +4.0%; business inventories, -0.1%; orders for duarable goods, +4.4%; orders for nondefense capital goods, +6.8%; industrial production, -0.5%; CPI, +0.0%; PPI, +0.2%; consumption deflator, +0.4%; leading indicators, +0.4%; M1, +4.7%; M2, +8.5%.

Monthly Statistical Highlights for April 1982

Payroll employment, +16,000; index of hours worked, UNC; household employment, +57,000; unemployment rate, 9.2%; personal income, +0.6%; savings rate, 5.1%; personal consumption, +0.5%; retail sales, +0.3%; automobile sales, 7.9 million units; housing starts, +6.9%; housing permits, +0.8%; construction expenditures, -0.2%; business inventories, +0.3%; orders for durable goods, +2.1%; orders for nondefense capital goods, +3.2%; industrial production, +0.1%; CPI, +0.4%; PPI, +0.6%; consumption deflator, +0.5%; leading indicators, +1.1%; M1, +8.9%; M2, +11.5%.

COMMENTARY

Employment

The 97,000 increase in payroll employment during February was less significant than it appeared. Following weather related curtailments, construction payrolls rebounded by 80,000 in February but remained far below December levels. Moreover, a significant portion of these additional workers were part-timers who normally would have desired full time work. Also, employment in retail trade grew 60,000 primarily because the layoffs from the Christmas season never developed because no substantial hiring was done to meet Christmas needs. The February level was only 25,000 above employment in retail trade in October. In both instances further increases are not expected in the next few months. Also, a substantial number of workers were added to the part-time payrolls in February, leading to a lower increase in the unemployment rate than otherwise would have developed. While this shift toward sharing the available work should lead to lower unemployment rates in this cycle than otherwise would develop, the economy remained weak in February. Only 46% of all industries reported increased hirings during the month.

One favorable aspect of The Employment Situation report was the substantial slowing in the hourly earnings index. At the present time this index is only 7.5% above previous year levels. In the recovery from the 1975 recession, the hourly earnings index slowed to only a 6.8% rate of increase from previous year levels. Thus, further slowing from current levels would be favorable for long-term inflationary prospects.

After the weather related rebound in February, economic activity is again expected to show a declining trend in March before recovery begins in earnest by June.

Personal Income

Early in 1982 personal income is being aided by improving farm income. Of course, personal income was restrained in January by a significant increase in employee contributions for social insurance. Such contributions will not be an additional factor slowing the growth of personal income in subsequent months.

Despite only marginally higher performance of personal income than contained in our forecast, estimated disposable income is nearly $9 billion higher. Apparently, estimates of personal tax and non-tax receipts were reduced in January to reflect lower tax liabilities from the IRA and other accounts. Of course, households do not have these tax savings at the present time. There may be as much as a $6 billion phantom savings currently being generated because of this practice. (In general, the national income accounts are on an accrual rather than a cash basis. Therefore, this procedure is appropriate. However, it means that household savings will be less effective in restraining interest rates because those savings have not yet been realized.)

Consumption and Retail

The most noteworthy development in consumption and retail sales is the apparent discrepancy between sharp gains in consumer purchases of durable goods both in January and February in comparison to a sharp decrease in durable sales in January before the February rebound. Apparently, the mix of auto sales has changed away from used cars and toward new cars because of aggressive sales incentive programs. This shift does have implications for the Consumer Price Index, which includes used car prices in its measurement. It also suggests that auto sales later in the year may not maintain the incentive induced activity that currently is developing. Of greatest significance, however, is the possibility that many analysts may fail to realize that consumer spending as measured in the GNP accounts is actually rising sharply after adjustment for inflation during the first quarter. This means that final sales probably are increasing. As a result, the inventory correction may be completed before the end of the second quarter, which is assumed in these projections.

Consumer outlays also show the sharp increase in utility purchases during January. In fact, those services were distributed and billed but not paid for in January. As a result, consumer liquidity may be more substantially stretched in February than the personal income figures suggest. Therefore, a consumer shift away from the market during the second quarter must remain a serious possibility. In such an instance, the weakening liquidity position of corporations could lead to some undesirable business failures and accelerating psychological problems. Therefore, the second quarter recovery is by no means assured, although it appears to be the most likely outcome at the present time.

Construction

Aside from the impact of the winter weather, the construction figures are noteworthy for two significant events. First, housing sales once again have fallen sharply in January. Although some commentators had mentioned that weather factors created the problem, the largest part of the decline was in the West. This weakness in sales is already beginning to be reflected in single family housing starts in February, which fell to 533,000 units. Only a sharp increase in multi-family construction prevented a decline in housing starts during the month. Under these circumstances it now appears that the construction rebound could be delayed until the second half of the year.

Second, however, private nonresidential construction grew sharply despite adverse weather conditions. This growth reflects previous gains in nonresidential orders. Nervousness is beginning to pervade the commercial construction economy, and should lead to a significant reduction in orders later in the year. Indeed, nonresidential construction may actually be trending downward during the second half of 1982 even as housing activity begins to accelerate.

Business Activity

The weather especially impacted shipments of capital goods in January. While shipments should rise sharply in February, they are not expected to grow significantly above trend. As a result, both defense procurement and nondefense capital expenditures are expected to drop noticeably in the first quarter. They almost certainly will rebound during the second quarter despite the fact that the orders figures remain severly depressed. Whether they will continue to rally beyond that period, as we expect in these projections, depends upon whether orders begin to pick up.

Prices

The oil glut and other price concessions have led to a significant downward revision in most of our price estimates. For the twelve months through November the Consumer Price Index is expected to increase only 5.3%. The Producer Price Index for finished goods is expected to show a 4.6% gain, while prices for industrial commodities should grow only 5%. If these price patterns materialize, the consumption deflator should grow only 6.5% during the year. Obviously, this slackening of consumer and industrial prices will be felt in the GNP deflator. This explains why we have significantly reduced the GNP deflator during the first half of 1982.

Financial Markets

Once again the money markets are showing little short-term relationship to economic conditions. During January, when economic activity dropped significantly, M1 grew at an annual rate of 23%. In February, when all the statistics clearly show that the economy rebounded from the January weather shock, M1 declined at an annual rate of 4%. Although seasonals may be a factor in generating this unusual pattern, the currency figures, which have fewer seasonal problems than the deposit measures, also revealed a similar pattern. Of course, part of this distortion is created by the illusion that Treasury deposits have no impact upon economic activity. (They are excluded from the money stock measures.) Thus, significant increases in Treasury balances could significantly slow measured money growth for a short period of time. Because of these shifts in Treasury deposits, the latest statistical game being played by monetarists, including Milton Friedman, has very little validity. Of course, over a longer period of time Treasury deposits have very little influence upon monetary aggregates.

As our feelings on corporate liquidity have been expressed above, no further amplification is required except to note that our interest rate projections have been moderated but the pattern remains unchanged from our forecast. The liquidity problems suggest that a shift in the pattern, especially upon short-term interest rates, may be appropriate. Our next monthly projections will deal with this problem in greater depth.

Stock Market

Operating profits unquestionably are falling sharply at the present time as corporations move to unload unwanted inventories. Of course, reduced industrial prices are leading to moderation in the inventory valuation adjustment. This improves the quality of what profits are being generated. Nevertheless, operating profits less tax liabilities are falling noticeably through the second quarter. Interest rates are off their highs, but the corporate liquidity squeeze could lead to temporary upward movement in interest rates. Such a condition would be very unfavorable for equity values in the short run. Our current formula would suggest that the Dow Jones should average 830 for the second quarter. This means that the market could plunge to 750 before establishing a bottom. Certainly, equity ownership would be encouraged after that point, as corporate reliquification also should aid equity values.

3/17/82

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1981	91880	91880	109.4	109.4	100864	100864	7.2	7.2	139.0	139.0
August	91901	91901	109.2	109.2	100840	100840	7.3	7.3	140.7	140.7
September	92033	92033	108.6	108.6	100258	100258	7.6	7.6	141.5	141.5
October	91832	91832	108.4	108.4	100343	100343	8.0	8.0	141.9	141.9
November	91507	91522	108.0	108.0	100172	100172	8.3	8.3	143.2	143.2
December	91110	91113	106.5	106.9	99613	99613	8.8	8.8	143.3	143.5
January 1982	90906	90839	105.3	104.1	99496	99581	8.7	8.5	144.5	145.0
February	90895	90936	106.5	106.5	99471	99590	8.9	8.8	145.7	145.1
March	90902	90894	106.2	106.3	99389	99546	9.1	9.1	147.8	146.4
April	90915	90910	106.2	106.3	99402	99603	9.3	9.2	148.2	147.3
May	90968	90972	106.4	106.3	99455	99615	9.4	9.3	148.5	148.0
June	91048	91102	106.7	106.6	99517	99742	9.5	9.4	149.0	148.7
July	91265	91275	107.0	106.9	99763	99894	9.4	9.4	150.2	149.5
August	91520	91426	107.3	107.1	100001	100002	9.3	9.4	151.4	150.5
September	91775	91683	107.6	107.5	100251	100243	9.3	9.3	152.5	151.4
October	91886	91804	107.8	107.6	100389	100376	9.2	9.3	153.3	152.3
November	91954	91928	108.0	107.6	100522	100559	9.3	9.2	154.0	153.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1981	2.419	2.419	1.485	1.485	109.3	109.3	2.026	2.026	1.917	1.917
August	2.443	2.443	1.500	1.500	97.7	97.7	2.043	2.043	1.945	1.946
September	2.463	2.463	1.511	1.510	113.7	113.7	2.057	2.057	1.943	1.944
October	2.474	2.475	1.518	1.518	130.7	131.9	2.079	2.080	1.948	1.948
November	2.488	2.492	1.526	1.528	126.3	127.7	2.088	2.093	1.962	1.965
December	2.492	2.491	1.525	1.521	115.5	120.5	2.092	2.091	1.977	1.971
January 1982	2.492	2.495	1.520	1.525	103.6	115.7	2.092	2.101	1.988	1.985
February	2.506	2.511	1.529	1.534	97.5	104.6	2.103	2.114	2.006	2.009
March	2.514	2.526	1.533	1.540	95.0	106.8	2.107	2.126	2.012	2.019
April	2.535	2.542	1.548	1.549	99.6	108.6	2.124	2.138	2.024	2.029
May	2.557	2.556	1.563	1.556	104.5	105.2	2.140	2.147	2.036	2.042
June	2.581	2.576	1.578	1.568	108.5	109.2	2.161	2.162	2.053	2.053
July	2.611	2.610	1.591	1.581	143.9	151.6	2.213	2.222	2.069	2.070
August	2.629	2.630	1.604	1.594	132.7	151.3	2.227	2.238	2.094	2.087
September	2.651	2.654	1.617	1.609	126.9	151.9	2.243	2.257	2.116	2.105
October	2.673	2.675	1.633	1.624	133.4	146.3	2.262	2.273	2.129	2.127
November	2.693	2.691	1.634	1.634	129.9	139.5	2.275	2.283	2.145	2.144

Fore. = February Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1981	1865.6	1865.6	230.0	230.0	746.8	746.8	888.8	888.8	959.4	959.4
August	1894.3	1894.3	245.2	245.2	752.5	752.5	896.6	896.6	969.3	969.3
September	1891.7	1891.7	233.4	233.4	754.6	754.6	903.8	903.8	959.7	959.7
October	1895.3	1895.3	226.3	226.3	755.2	755.2	913.7	913.8	955.3	955.1
November	1909.7	1912.0	226.4	227.8	761.4	761.8	921.8	922.4	958.2	958.9
December	1923.6	1917.8	226.2	226.4	766.2	761.0	931.2	930.4	961.3	957.6
January 1982	1935.6	1932.4	227.9	234.1	765.6	757.2	942.1	941.0	961.5	960.8
February	1953.5	1956.6	231.4	239.2	770.6	766.5	951.5	950.9	963.7	968.3
March	1958.5	1966.3	232.5	237.5	772.3	771.4	953.7	957.4	960.0	969.0
April	1971.2	1976.1	233.4	236.7	776.3	775.6	961.5	963.8	961.6	969.3
May	1982.9	1988.1	234.1	237.5	779.1	781.2	969.7	969.4	962.6	971.0
June	1998.2	1998.9	234.9	238.4	780.7	783.8	982.6	976.7	964.8	971.3
July	2015.0	2015.9	238.3	240.8	788.5	790.2	988.2	984.9	966.4	973.2
August	2039.7	2031.8	241.6	241.7	796.2	797.3	1001.9	992.8	972.2	974.5
September	2061.7	2050.1	245.2	244.6	803.9	804.3	1012.6	1001.2	976.6	976.8
October	2073.5	2071.2	247.5	247.5	807.9	810.7	1018.1	1013.0	976.7	981.0
November	2088.9	2087.5	249.4	248.4	811.4	816.5	1028.1	1022.6	978.4	983.4

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1981	87.13	87.13	11.69	11.69	8.2	8.2	59.56	59.56	15.88	15.88
August	88.59	88.59	11.71	11.71	10.4	10.4	60.15	60.15	16.73	16.73
September	88.70	88.70	11.75	11.75	8.7	8.7	60.32	60.32	16.63	16.63
October	86.66	86.66	11.38	11.38	7.2	7.2	60.34	60.34	14.94	14.94
November	87.23	87.22	11.39	11.42	7.3	7.6	60.73	60.74	15.11	15.11
December	87.54	87.44	11.60	11.43	7.3	7.3	60.93	60.75	15.01	15.26
January 1982	87.69	86.17	11.39	11.27	7.5	8.0	60.88	60.41	15.42	14.49
February	88.50	87.55	11.27	11.44	8.0	8.5	61.28	61.01	15.59	15.10
March	88.77	87.75	11.59	11.45	7.8	8.0	61.42	61.40	15.76	14.90
April	89.19	87.99	11.50	11.49	7.9	7.9	61.73	61.73	15.96	14.77
May	89.50	88.53	11.38	11.53	8.0	7.9	61.96	62.18	16.16	14.82
June	89.71	88.84	11.40	11.53	8.0	8.0	62.08	62.39	16.23	14.92
July	90.73	89.62	11.36	11.60	8.3	8.2	62.70	62.90	16.67	15.12
August	91.74	90.28	11.55	11.63	8.4	8.3	63.32	63.46	16.87	15.19
September	92.78	91.16	11.69	11.65	8.6	8.5	63.93	64.02	17.16	15.49
October	93.37	91.99	11.71	11.74	8.7	8.6	64.25	64.53	17.41	15.72
November	93.86	92.55	11.88	11.76	8.7	8.7	64.52	64.99	17.46	15.80

Fore. = February Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	1.047	1.040	0.704	0.696	0.913	0.913	233.9	233.9	154.0	153.7
August	0.937	0.946	0.606	0.614	0.865	0.865	229.8	229.8	151.4	150.2
September	0.914	0.899	0.607	0.623	0.850	0.850	230.9	230.9	151.9	149.5
October	0.902	0.854	0.508	0.507	0.722	0.722	229.9	229.9	150.2	147.8
November	0.894	0.860	0.560	0.554	0.723	0.723	231.6	231.6	148.5	148.5
December	0.913	0.899	0.593	0.559	0.789	0.789	229.3	234.4	145.0	148.1
January 1982	0.805	0.894	0.500	0.588	0.667	0.836	222.5	231.0	140.4	145.2
February	0.826	0.980	0.501	0.635	0.693	0.842	225.9	230.0	142.2	144.2
March	0.823	0.905	0.475	0.563	0.711	0.825	226.4	239.3	142.0	149.4
April	0.915	0.967	0.560	0.620	0.746	0.832	232.6	238.8	144.8	148.9
May	1.086	1.062	0.697	0.691	0.825	0.911	237.4	242.8	146.7	149.8
June	1.278	1.145	0.855	0.757	0.962	1.002	240.7	244.8	147.7	149.7
July	1.163	1.263	0.743	0.861	1.013	1.086	245.2	251.4	149.5	152.8
August	1.192	1.295	0.766	0.867	1.065	1.114	251.6	250.3	152.5	151.0
September	1.242	1.342	0.810	0.900	1.102	1.172	260.0	257.5	156.7	154.0
October	1.308	1.386	0.868	0.951	1.163	1.216	263.6	268.8	157.8	160.0
November	1.355	1.427	0.896	0.939	1.208	1.245	266.5	270.5	158.7	160.5

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	99.4	99.4	51.6	51.6	82.9	82.9
August	100.1	100.1	49.3	49.3	80.5	80.5
September	100.1	100.1	52.2	52.2	78.5	78.5
October	100.0	100.0	51.6	51.6	78.2	78.2
November	101.1	101.1	52.4	52.4	78.1	78.1
December	98.4	101.7	52.0	53.1	78.9	79.6
January 1982	96.9	102.2	50.6	50.9	75.0	77.9
February	98.4	103.6	52.3	52.6	75.2	79.0
March	100.0	104.9	52.0	52.1	74.4	82.3
April	102.7	105.3	52.3	52.5	77.6	81.0
May	105.3	106.5	52.6	52.9	79.5	83.4
June	106.8	106.9	52.5	52.8	81.4	85.1
July	105.9	107.3	52.8	53.3	86.5	90.8
August	105.7	107.6	53.2	53.2	92.7	89.5
September	105.4	107.1	53.5	53.7	101.1	96.7
October	106.3	106.9	53.8	54.1	103.5	107.8
November	107.7	106.2	54.1	54.5	104.7	109.8

Fore. = November Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durables Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	271.9	271.9	89.70	89.70	24.23	24.23	23.93	23.93
August	273.4	273.4	87.35	87.35	24.70	24.70	24.57	24.57
September	276.6	276.6	86.28	86.28	23.03	23.03	24.61	24.61
October	278.4	278.4	77.80	77.80	21.00	21.00	23.53	23.53
November	279.5	279.5	79.96	79.96	23.81	23.81	24.43	24.43
December	277.2	276.4	80.18	79.76	22.81	22.52	24.46	24.75
January 1982	276.5	275.3	79.65	78.39	22.25	22.23	23.67	22.97
February	276.9	275.7	81.93	78.02	23.92	21.96	24.45	24.62
March	277.8	275.5	83.24	81.49	24.46	23.45	24.80	24.56
April	278.3	276.2	86.62	83.22	24.62	24.21	24.45	24.43
May	279.0	277.1	83.55	83.69	24.09	24.43	24.56	24.58
June	279.3	278.0	84.86	82.15	24.60	24.08	24.67	24.71
July	281.2	279.3	86.23	85.28	25.14	25.62	24.82	24.93
August	282.6	280.2	86.05	85.73	25.10	25.43	24.93	24.90
September	283.5	282.1	87.62	86.94	25.46	25.91	25.04	25.02
October	285.4	283.7	88.43	87.15	25.73	25.62	25.35	25.15
November	287.8	285.2	88.69	88.82	25.65	26.16	25.41	25.32

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	498.1	498.1	4.23	4.23	153.9	153.9	80.0	80.0
August	502.5	502.5	4.42	4.42	153.6	153.6	79.6	79.6
September	508.1	508.1	4.21	4.21	151.6	151.6	78.7	78.7
October	511.7	511.7	4.34	4.34	149.2	149.1	76.6	76.5
November	515.1	515.1	4.50	4.50	146.4	146.4	74.8	74.8
December	514.1	511.6	4.57	4.63	143.3	143.4	72.9	73.0
January 1982	512.5	509.7	4.65	4.21	140.5	139.1	71.2	70.4
February	513.7	509.2	4.74	4.58	142.3	140.9	71.8	71.4
March	515.7	509.0	4.83	4.89	140.5	140.6	70.6	71.0
April	517.1	510.6	4.92	4.91	141.0	140.7	70.7	70.8
May	518.6	512.4	4.95	4.96	141.8	141.0	71.0	70.8
June	519.6	514.0	4.92	5.03	143.8	141.8	71.7	71.1
July	522.3	516.7	5.11	5.13	145.9	142.8	72.5	71.4
August	525.2	518.6	5.19	5.19	147.4	143.3	73.2	71.4
September	527.3	522.3	5.28	5.32	148.9	144.1	73.9	71.6
October	530.4	524.8	5.39	5.40	149.5	144.9	74.2	71.8
November	533.7	527.6	5.47	5.49	150.4	145.7	74.7	72.0

Fore. = February Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods (unadjusted)		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	274.4	274.4	271.8	271.8	306.2	306.2	141	141	1.9414	1.9414
August	276.5	276.5	271.5	271.5	307.2	307.2	137	137	1.9542	1.9554
September	279.3	279.3	271.5	271.5	307.2	307.4	134	134	1.9727	1.9715
October	279.9	279.9	274.0	274.3	308.8	309.0	130	130	1.9859	1.9904
November	280.7	280.7	274.5	274.5	309.1	309.1	130	130	1.9973	2.0001
December	281.5	281.5	275.3	275.3	310.1	310.1	128	128	2.0042	2.0096
January 1982	281.9	282.5	276.8	277.4	311.5	311.7	130	132	2.0165	2.0182
February	282.9	283.3	278.0	277.4	312.4	311.4	132	133	2.0342	2.0279
March	283.9	283.5	279.3	277.8	313.3	312.0	135	135	2.0511	2.0347
April	285.2	284.6	280.5	279.6	314.7	313.7	137	137	2.0592	2.0436
May	286.8	285.7	281.7	280.8	316.2	316.0	140	138	2.0678	2.0536
June	288.4	287.1	282.9	282.2	317.8	317.5	142	140	2.0756	2.0650
July	290.5	288.9	284.8	283.6	318.9	319.3	142	141	2.0892	2.0775
August	292.6	290.3	286.8	284.3	320.6	320.4	141	143	2.1050	2.0919
September	294.8	292.1	288.9	285.7	322.2	322.8	144	143	2.1201	2.1054
October	296.8	293.8	290.0	286.5	323.9	323.5	145	144	2.1336	2.1191
November	298.9	295.6	292.1	287.2	325.7	324.6	146	145	2.1451	2.1300

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	194.4	194.4	167.8	167.8	202.5	202.5	195.9	195.9	151.9	152.2
August	195.4	195.4	168.2	168.2	203.3	203.3	197.8	197.8	151.8	153.0
September	197.1	197.1	169.1	169.1	205.2	205.2	199.1	199.1	152.0	154.5
October	198.4	198.4	170.1	170.1	205.8	205.8	200.7	200.8	153.1	153.8
November	199.3	199.4	170.3	170.2	206.1	206.3	202.2	202.4	156.0	156.0
December	200.1	200.3	170.3	170.8	206.4	206.5	203.7	203.8	158.1	158.2
January 1982	201.3	201.1	171.7	171.4	207.6	207.1	205.1	205.2	158.5	159.1
February	202.7	202.1	171.5	171.0	208.9	208.2	206.6	206.6	158.9	159.5
March	204.0	202.9	173.1	171.4	210.2	208.5	208.0	207.9	159.4	160.2
April	205.0	203.9	173.7	172.0	211.0	209.2	209.2	209.1	160.6	160.4
May	206.0	204.7	174.4	172.5	211.9	209.8	210.4	210.3	161.8	162.1
June	207.1	205.8	175.0	173.4	212.8	210.8	211.6	211.4	163.0	163.5
July	208.5	207.1	176.0	174.4	213.9	212.0	213.3	213.0	164.0	164.5
August	209.8	208.5	177.0	175.5	215.2	213.1	215.1	214.6	165.0	165.8
September	211.1	209.9	178.1	176.3	216.5	214.5	216.9	216.2	165.9	167.2
October	212.3	211.1	179.0	177.0	217.6	215.7	218.2	217.1	167.1	167.9
November	213.5	212.3	179.9	177.9	218.6	216.7	219.4	219.0	167.9	168.5

Fore. = February Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	167.7	167.7	429.3	429.4	1749.9	1753.6	19.04	19.04	14.74	14.74
August	168.5	168.5	430.9	431.1	1767.0	1772.2	17.82	17.82	15.52	15.52
September	168.5	168.5	431.2	431.2	1778.1	1778.1	15.87	15.87	14.92	14.92
October	168.1	168.1	432.9	432.9	1789.3	1789.3	15.08	15.08	13.82	13.82
November	169.2	169.2	436.4	436.4	1809.6	1809.7	13.31	13.31	11.30	11.30
December	170.5	170.9	440.8	440.9	1821.8	1822.4	12.37	12.37	11.52	11.52
January 1982	171.2	171.4	447.3	448.6	1845.9	1840.2	13.22	13.22	12.83	12.83
February	172.2	173.0	446.0	447.1	1868.3	1852.4	14.65	14.78	14.36	13.61
March	173.3	173.7	446.2	448.8	1887.7	1865.0	13.38	13.73	13.37	12.95
April	174.0	174.5	447.8	452.0	1897.6	1882.0	12.71	13.09	12.57	12.27
May	174.6	175.2	449.6	453.8	1902.4	1895.2	12.32	12.24	12.05	11.75
June	175.3	175.8	451.3	455.7	1909.8	1908.8	12.35	12.47	11.80	11.96
July	176.4	176.7	454.9	455.7	1928.6	1921.0	13.95	13.05	13.19	12.58
August	177.5	177.5	458.3	457.7	1950.3	1934.3	15.43	13.86	14.06	13.42
September	178.6	178.5	461.7	459.5	1973.5	1950.6	16.76	14.43	14.51	13.73
October	179.5	179.4	463.0	464.3	1986.9	1966.2	17.46	15.05	14.76	14.11
November	180.4	180.4	463.9	466.7	1997.5	1980.3	18.03	15.09	14.85	14.02

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	14.38	14.38	11.14	11.14	17.00	17.00	17.76	17.76	20.39	20.39
August	14.89	14.89	12.26	12.26	17.23	17.23	17.96	17.96	20.50	20.50
September	15.49	15.49	12.92	12.92	16.09	16.09	16.84	16.84	20.08	20.08
October	15.40	15.40	12.83	12.83	14.85	14.85	15.39	15.39	18.45	18.45
November	14.22	14.22	11.89	11.89	12.16	12.16	12.48	12.48	16.84	16.84
December	14.23	14.23	12.90	12.90	12.12	12.12	12.49	12.49	15.75	15.75
January 1982	15.18	15.18	13.28	13.22	13.09	13.09	13.51	13.51	15.75	15.75
February	15.35	15.27	13.25	12.97	14.43	14.53	14.75	15.00	16.72	16.56
March	15.46	14.62	13.30	12.35	13.35	13.42	13.72	13.85	16.31	16.15
April	14.83	14.53	12.74	12.26	13.02	12.76	13.39	13.09	16.04	15.54
May	14.85	14.45	12.70	12.14	12.85	12.09	13.24	12.42	15.79	15.00
June	15.20	14.73	12.95	12.45	12.47	12.65	12.79	13.01	15.23	15.00
July	15.37	14.82	13.25	12.55	13.68	13.14	13.98	13.52	16.07	15.62
August	15.40	14.97	13.32	12.73	15.02	13.95	15.43	14.46	17.42	16.63
September	15.44	15.11	13.36	12.87	16.65	14.53	16.92	15.89	18.95	17.90
October	15.52	15.26	13.43	13.12	17.53	15.08	17.85	16.42	19.92	18.67
November	15.65	15.21	13.57	13.11	18.09	15.02	18.43	16.36	20.49	18.75

Fore. = February Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	-542	-825	134.3	134.9	2944	2949	1516	1519	17.4	26.8
August	-4478	-4212	133.3	134.2	2967	2975	1518	1521	28.7	25.8
September	-1574	-1724	131.1	130.8	2984	2972	1513	1507	34.1	23.3
October	-4191	-3914	128.8	128.6	2981	2996	1501	1505	25.6	21.8
November	-3404	-3356	128.6	128.2	2989	2994	1497	1497	20.4	19.7
December	-695	-861	129.4	127.8	2985	2996	1489	1491	20.6	23.0
January 1982	-2162	-4092	128.6	127.0	2985	2971	1480	1472	20.5	24.9
February	-1653	-1926	128.0	126.6	3019	3015	1484	1487	23.6	21.6
March	-1202	-1843	128.3	127.1	3036	3025	1480	1487	22.8	18.5
April	-1463	-2061	129.6	128.5	3050	3039	1481	1487	23.9	16.8
May	-1526	-2142	130.9	129.3	3075	3061	1487	1490	25.8	17.2
June	-1956	-1960	132.0	130.7	3099	3080	1493	1491	27.4	18.5
July	-1685	-1853	133.1	132.1	3138	3111	1502	1497	28.2	20.4
August	-3126	-2592	133.2	131.6	3179	3132	1510	1500	25.3	21.6
September	-2585	-2685	132.7	132.2	3214	3167	1516	1504	29.6	23.9
October	-2463	-2514	133.9	132.5	3239	3205	1518	1512	31.2	24.6
November	-2662	-2612	134.8	133.7	3270	3231	1524	1517	31.3	26.5

Fore. = February Forecast
C.E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS
FOR MARCH

FOUNDATION EXISTS FOR RARE COMBINATION OF RECOVERY AND DECLINING INTEREST RATES IN SECOND HALF OF 1982

Once again, the proclamation that economic recovery already has begun appears to be premature. Sensitive prices have moved from sharp declines to a mixed pricing pattern while production schedules are rising above their lows in the automobile industry. However, the Business Week index of production continues to show a modest decline while initial unemployment claims remain above levels that would reflect further payroll reductions. Housing starts showed modest gains for five consecutive months, but neither conventional mortgage rates nor home sales (which dipped to a record low in March of 334,000 units) indicate that the foundations for a housing recovery are laid. Nevertheless, the consumer has recovered from unanticipated consumption demands during the severe winter weather and has now raised the savings rate above discretionary minimums in March. Declining inflation rates should increase the purchasing power imbedded in financial assets, should reduce the amount of earnings that are exhausted merely to maintain current consumption levels, and will greatly increase the real significance of the 10% tax reduction in July. When enacted, the July reduction was designed to offset Social Security increases, anticipated "bracket creep", and provide a one to two percentage point gain in purchasing power beyond those levels. Now that the CPI has increased at only a one percent annual rate in the first quarter, the combined Social Security and "bracket creep" factors may exhaust only six percentage points of that tax cut. Therefore, consumer activity is becoming poised for substantial gains during the second half of 1982.

Most analysts agree that an economic recovery should soon begin. In addition to the improving prospects of consumer activity, sharp inventory liquidations during the first quarter are rapidly paring manufacturing inventories to desired levels. When those desired levels are approached, production must increase to avoid creating too few inventories. Normally, the entire inventory adjustment takes less than five months from the beginning of liquidation. As liquidations began in December, this would suggest that improving production should become evident in late April or in May.

While most analysts believe that a recovery will begin late in the second quarter or soon thereafter, most estimates also indicate that interest rates will be rising sharply at that time. In essence, consumer spending will be financed by government borrowings. This transfer of funds will add increased pressures upon credit markets, which already will be called upon to finance rising inventories and any gains in housing and fixed investment that might be induced by changing economic conditions during the recovery. Also the Federal Reserve's money targets currently are being exceeded. Therefore, the Federal Reserve would suffer a severe credibility loss if it fully accommodated the economic expansion. Finally, some of the factors that led to reduced Treasury borrowings during the first half of 1982 will be absent later in the year. This should accentuate the government's presence in the credit markets during the latter part of 1982.

While all the above arguments have merit, extensive analysis on the sources and uses of funds by major economic agents suggests that the credit market burdens that so obviously are developing for the third quarter can be met with only a modest and temporary increase in credit market pressures. Thus, projections of interest rate movements in the latter part of 1982 have been dramatically altered from the forecasts that were presented in February. Indeed, the fact that most sensitive short-term rates currently exceed rates anticipated three months ago reinforces our judgment that unusual savings flows will lead to improving interest rates late in 1982.

This shift in analysis is so dramatic that the traditional commentary by economic sectors will await the next issue of Monthly Projections.

Obviously, simple explanations of interest rate performance in 1982 have not remained consistent with economic events. The Producer Price Index showed its first decline since 1976 within days of historically high interest rates on long-term government bonds. While a rally in the bond market ensued, the confirmation of rapidly slowing inflation through a decline in the Consumer Price Index could only prolong the bond market rally for about a week. Inflation has slowed dramatically, but long-term interest rates have barely budged from historic highs. Moreover, virtually every credible forecast of inflationary conditions during the next few years has sharply reduced its projected price changes. The long-term bond market has not responded. Even classical economists now realize that something more than a basic real interest rate plus inflationary expectations is influencing interest rates at the present time.

The additional factor most often cited is the increased price volatility of bonds. Certainly, increased volatility means greater portfolio risks in the bond market and a risk premium certainly is warranted. Studies previously done to evaluate risk premiums for equity ownership would suggest that that premium could approach 1.5 percentage points (not the 4-6 percentage points that some people have been trying to claim). Two factors strongly suggest that the risk premium in bonds cannot be substantially higher than that. First, short-term interest rates, where the risk of price volatility is relatively low, remain near or above long-term rates. If a risk premium were substantial, the yield curve would be dramatically upward sloping at the present time. Second, foreign investors would especially wish to avoid price volatility risk since they suffer from two sources of portfolio risk: fluctuating U.S. interest rates and fluctuating currency values. The risks appear to be reinforcing rather than offsetting. Therefore, foreign investors would be shunning American debt instruments if high interest rates merely reflected compensation for increased price volatility. As foreign investors have not avoided the dollar until recent weeks, the risk premium agrument must be assigned a relatively low weight in the explanation of high interest rates.

If expected inflation and increased price volatility requiring risk premiums cannot explain why interest rates are so high, what can? The obvious, but inadequate explanation is that investment demand exceeds the available pool of savings at lower interest rates than currently prevail. This is not an incorrect statement, but it does not explain why such an imbalance continues to exist at high real interest rates. Apparently, short-term saving and investment decisions reflect more economic inertia than many analysts are willing to concede. Moreover, regulatory changes and changing tax codes have offset what investment response otherwise would develop to sharply rising real rates of interest. Any explanation of why real interest rates are currently so high must also address why real interest rates remained so low for so long during the 1970s.

Until 1979, regulatory restraints led to significant portfolio shifts for savings capital before rising interest rates where able to restrain investment demand. These portfolio adjustments led to disintermediation and a lack of availability of funds for some activities. Thus, lower interest rates than currently prevail would lead to more substantial restriction in investment activity than currently exists. Indeed, the regulatory shifts have not yet been completed. By some estimates as much as $30 billion of bank earnings is being generated by the availibility of deposits at below market rates. By 1986, this $30 billion subsidy is expected to be largely removed. Clearly, spreads between bank yields and bank costs of money must widen over that period to maintain appropriate returns on invested capital. Nevertheless, the bulk of these interest rate adjustments has now been completed.

Those investment opportunities during the 1970s that were not discouraged by lack of funds were impacted as rising inflation rates altered the relationship between taxable income and the after-tax return on invested capital. While accelerating inflation still raises the effective tax rate on invested capital, altered depreciation schedules sharply reduce the magnitude of that effect. Moreover, disinflation is narrowing the gap between historical and replacement capital costs. In effect, tax rates on earnings from capital are continuing to decline.

Because of changes in regulatory conditions and in effective tax rates on the earnings of capital, investment demand has not been significantly reduced by dramatic increases in real interest rates. Thus, one economic force that should prevent real interest rates from rising dramatically only now is moving into a free market climate with reduced tax distortions so that it can perform the role always assumed for it by classical economists.

While slow changes in the effective demand for investment goods certainly contributed to current high real rates of interest, the most interesting behavioral factors have been on the supply of funds. Households appeared to have responded grudgingly to negative after-tax real returns on savings. Discretionary savings, (that portion of savings in excess of pension contributions, life insurance reserves, and the paydown of mortage liabilities) did not fall below zero until 1979. The income effect that became apparent when the rainy day arrived, and savings proved to be inadequate, dominated the substitution effect. Portfolios were altered to diminish the loss to inflation but net additions to portfolios remained nearly constant. (Any issues about a subterranean economy merely reinforce the high persistence of savings despite deteriorating yields.) Late in the 1970's savings finally began to adjust to anticipated yields.

It should not be surprising that the initial response of households to increased returns on savings have been less than dramatic. Even the acceleration to a 5.7% savings rate in March reflects nothing more than a natural household response to the drawdown of current earnings that weather induced consumption generated earlier in the winter. Most households ran out of money before they ran out of month in January and February and were adjusting their savings patterns in March to improve checkbook balances.

This inertia in savings behavior by households explains why real rates of interest fluctuate over the business cycle. How can interest rates change to reflect changing inflationary expectations if no investment decisions are altered as a result of those shifts in expectations and if no pools of savings are adjusted to reflect the new anticipated inflationary conditions? Ultimately, changing inflationary expectations will alter both investment and saving decisions. However, this adjustment has no where near the immediacy that some analysts give it.

Now that the case has been presented for analyzing the investment and savings behavior of economic agents, who are those economic agents and what are they doing? First is the foreign investor. With high interest rates, a current account surplus, and therefore anticipations that the dollar might remain firm, foreigners have been generous in providing savings to the United States. Their holdings are especially volatile and sometimes dominate short-term swings in short-term interest rates. The current account surplus is fading, as exports finally are beginning to fall more sharply than the imports of oil, but real interest rates remain very high. Exposure to currency risk is growing for foreign investors and they may gradually liquidate portfolio holdings as the year progresses. Everything else being equal, this would lead to rising interest rates, but this foreign influence appears to be relatively minor, except in the spring, where their portfolio shifts may lead to higher short-term rates than otherwise would prevail.

Normally, shifts in the net use of funds by corporations lead to sharp reductions in interest rates late in a recession. In this recession, however, high interest rates have led to a dramatic reduction in desired inventories. This, in turn, has led to reduced industrial prices, further accentuating the desire to liquidate inventories that are now losing market value. Unfortunately, price concessions given to liquidate inventories cannot be segregated from the pricing of goods coming off the production line, unless the lines are completely shut down, as they have been in several mining activities. In the fourth quarter the gap between private domestic price changes and private domestic changes in unit labor costs was a negative 2.7 percent. In the first quarter of 1982, this increased (as a result of sharply slowing price gains) to a gap of 5.1 percent, the largest gap recorded in the post-war period. As a result, corporate liquidity continued to deteriorate into the second quarter. Continued slowing in unit costs and projected easing of price concessions should sharply lower that gap in the second quarter. By the summer, profit margins should begin to improve (after all, price concessions should end about the time that inventories approach desired levels). Thus corporate liquidity, which deteriorated throughout this recession, should improve in the first months of economic recovery. Commercial and industrial loans, which grew at more than a 30 percent annual rate in the first quarter, should be showing little growth during the second half of 1982. Corporations already have provided their maximum additions to credit market pressures and should be providing credit market relief during the latter half of 1982.

Unfortunately, the government sector requires corporate relief to prevent a return to historically high interest rates. To a large extent government borrowings divert the savings pool from capital expansion to consumption needs through its distribution of goods and resources via expenditures. Analyzing the impact of the deficit by measuring the ratio of debt to GNP is valid only if all other sources and uses of funds are proportional to GNP. If the demand for capital expenditures intensifies, then an unchanged government debt to GNP ratio would lead to rising interest rates. If government borrowings were temporarily induced by a weak economy, short-term interest rates would rise but long-term interest rates would be largely unchanged. The fact that long-term interest rates rose in the latter half of 1981 even as short-term interest rates tried to decline indicates that the average deficit in the forseeable future, rather than the current deficit, is creating credit market dislocations.

Despite lower deficits earlier in 1982 than anticipated, economic conditions did not lower anticipated deficits. Expected deficits continue to rise for the foreseeable future. Most of this financing problem has been foreseen by long-term investors but the failure to compromise on the budget probably will have near-term adverse effects. Thus, the government sector is a major contributor to rising interest rates, and its borrowings probably explain why long-term interest rates are so high at the present time. One estimate used in our analysis suggests that nearly 4 percentage points exist in long-term interest rates because the budget remains so significantly out of balance over an extended period of time.

Even with the unusual liquidity pattern in the corporate sector, government deficits probably would carry the day in determining interest rates in the latter part of 1982 and beyond if we had not significantly revised our anticipations of household savings. As these Monthly Projections show, household savings are expected to rise well above 7 percent in the latter part of 1982 and average in excess of 6.2 percent for the year. Our current anticipation is that personal savings rates may exceed 7 percent in 1983 and rise beyond 7.5 percent in 1984. In effect, the household sector is now expected to save nearly two-thirds of the tax reductions it will receive in 1982 and possibly a similar proportion in 1983. Part of this higher savings already reflects refinement in our analysis of consumer activity. A multi-year tax reduction tends to accentuate the consumer in that early part of that reduction cycle. This pattern of response comes directly from the permanent income hypothesis used to construct consumption decisions. If much of the expected tax reduction already has been incorporated in consumer spending, then the response to actual withholding adjustments will be increased savings. Multi-year personal tax reductions probably were ill-advised under prevailing economic circumstances.

Nevertheless, slowing inflation and the tax reduction will lead to a significant increase in inflation adjusted spending power. This sharp increase in real disposable income will permit many households to explore savings programs that otherwise would impinge upon their current consumer habits. Thus, one of the inertial characteristics will be less operative than if the tax reduction merely restored purchasing power that recently had been lost. If most of the tax reduction is saved, then the deficit induced by those tax reductions is largely neutralized by household portfolio decisions. Therefore, the corporate sector will more closely dictate interest rate movements in the latter part of 1982 than under normal conditions. As mentioned earlier, this suggests that interest rates will be trending downward at that time.

Profit margin enhancement can only go so long toward improving corporate liquidity. By the latter part of 1983 the corporate sector will swing toward its traditional net user status for funds. A declining dollar could lead to withdrawals of savings by foreign investors. Thus interest rates could once again turn upward in the latter half of 1983 unless government claims against the savings pool are lowered without significantly impairing incentives to save by households. For that reason, the interest rate rollercoaster ride is not over even though interest rates very well may not explode in the latter half of 1982 and could certainly trend downward late in the year. (The key to this analysis is whether household savings rates can stay above 7 percent beyond July.) Obviously, a budget compromise would be beneficial. However, over time, high interest rates will begin to reduce investment decision and to encourage the growth of the savings pool. Thus, interest rates should be developing a pattern of declining tops, with the highest rate already being reached last March.

Quarterly Profile of GNP

	1981-IV	1982-I	1982-II	1982-III	1982-IV	1982 Annual
Real	-4.5	-3.9	-0.3	3.8	4.4	-1.1
Price	9.5	3.6	3.9	7.0	7.4	6.3
Nominal	4.6	-0.4	3.7	11.1	12.2	5.2

5/4/82

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	91901	91901	109.2	109.2	100840	100840	7.3	7.3	140.7	140.7
September	92033	92033	108.6	108.6	100258	100258	7.6	7.6	141.5	141.5
October	91832	91832	108.4	108.4	100343	100343	8.0	8.0	141.9	141.9
November	91507	91522	108.0	108.0	100172	100172	8.3	8.3	143.2	143.2
December	91110	91113	106.5	106.9	99613	99613	8.8	8.8	143.3	143.5
January 1982	90906	90879	105.3	104.3	99496	99581	8.7	8.5	144.5	145.1
February	90895	91040	106.5	107.1	99471	99590	8.9	8.8	145.7	145.2
March	90902	90822	106.2	106.1	99389	99492	9.1	9.0	147.8	145.8
April	90915	90697	106.2	105.8	99402	99316	9.3	9.3	148.2	146.6
May	90968	90763	106.4	106.0	99455	99392	9.4	9.4	148.5	147.3
June	91048	90829	106.7	106.2	99517	99448	9.5	9.7	149.0	147.9
July	91265	90975	107.0	106.5	99763	99629	9.4	9.5	150.2	148.8
August	91520	91128	107.3	106.7	100001	99801	9.3	9.4	151.4	149.5
September	91775	91372	107.6	107.1	100251	100062	9.3	9.2	152.5	150.4
October	91886	91594	107.8	107.4	100389	100243	9.2	9.2	153.3	151.0
November	91954	91728	108.0	107.6	100522	100379	9.3	9.1	154.0	152.1
December	92022	91895	108.0	107.8	100664	100543	9.3	9.1	154.5	152.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	2.443	2.443	1.500	1.500	97.7	97.7	2.043	2.043	1.945	1.946
September	2.463	2.463	1.511	1.510	113.7	113.7	2.057	2.057	1.943	1.944
October	2.474	2.475	1.518	1.518	130.7	133.6	2.079	2.080	1.948	1.947
November	2.488	2.492	1.526	1.528	126.3	130.2	2.088	2.093	1.962	1.963
December	2.492	2.492	1.525	1.522	115.5	120.1	2.092	2.092	1.977	1.972
January 1982	2.492	2.499	1.520	1.531	103.6	109.6	2.092	2.104	1.988	1.995
February	2.506	2.514	1.529	1.542	97.5	104.8	2.103	2.114	2.006	2.010
March	2.514	2.525	1.533	1.543	95.0	121.8	2.107	2.127	2.012	2.006
April	2.535	2.537	1.548	1.548	99.6	126.2	2.124	2.138	2.024	2.012
May	2.557	2.555	1.563	1.558	104.5	130.2	2.140	2.154	2.036	2.024
June	2.581	2.574	1.578	1.568	108.5	129.9	2.161	2.171	2.053	2.041
July	2.611	2.603	1.591	1.582	143.9	164.4	2.213	2.222	2.069	2.058
August	2.629	2.620	1.604	1.593	132.7	164.3	2.227	2.236	2.094	2.072
September	2.651	2.636	1.617	1.600	126.9	160.1	2.243	2.248	2.116	2.088
October	2.673	2.659	1.633	1.616	133.4	163.1	2.262	2.267	2.129	2.014
November	2.693	2.682	1.646	1.631	129.9	161.2	2.275	2.287	2.145	2.126
December	2.713	2.702	1.659	1.643	129.7	159.2	2.291	2.303	2.161	2.144

Fore. = February Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	1894.3	1894.3	245.2	245.2	752.5	752.5	896.6	896.6	969.3	969.3
September	1891.7	1891.7	233.4	233.4	754.6	754.6	903.8	903.8	959.7	959.7
October	1895.3	1894.6	226.3	226.3	755.2	755.2	913.7	913.1	955.3	954.8
November	1909.7	1910.6	226.4	226.2	761.4	761.7	921.8	922.6	958.2	958.2
December	1923.6	1919.7	226.2	226.7	766.2	764.0	931.2	928.9	961.3	959.4
January 1982	1935.6	1942.0	227.9	237.4	765.6	759.9	942.1	944.7	961.5	962.6
February	1953.5	1957.0	231.4	238.8	770.6	771.5	951.5	946.7	963.7	970.4
March	1958.5	1953.1	232.5	234.1	772.3	766.8	953.7	952.1	960.0	967.4
April	1971.2	1959.2	233.4	231.7	776.3	767.9	961.5	959.6	961.6	967.8
May	1982.9	1971.0	234.1	232.3	779.1	771.9	969.7	966.8	962.6	969.3
June	1998.2	1988.1	234.9	234.6	780.7	776.0	982.6	977.5	964.8	973.2
July	2015.0	2004.4	238.3	238.1	788.5	782.7	988.2	983.6	966.4	976.0
August	2039.7	2018.2	241.6	239.3	796.2	786.9	1001.9	992.0	972.2	977.8
September	2061.7	2034.2	245.2	243.6	803.9	793.7	1012.6	996.9	976.6	980.1
October	2073.5	2049.8	247.5	246.2	807.9	798.3	1018.1	1005.3	976.7	982.1
November	2088.9	2071.3	249.4	250.2	811.4	806.9	1028.1	1014.2	978.4	987.0
December	2104.6	2089.0	251.6	254.8	814.6	813.2	1038.4	1021.0	980.4	990.4

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	88.59	87.96	11.71	12.20	10.4	10.4	60.15	59.86	16.73	15.90
September	88.70	87.82	11.75	12.15	8.7	8.7	60.32	60.01	16.63	15.66
October	86.66	86.41	11.38	11.84	7.2	7.2	60.06	60.34	14.94	14.51
November	87.23	86.73	11.39	11.84	7.3	7.6	60.73	60.30	15.11	14.60
December	87.54	86.57	11.60	11.71	7.3	7.3	60.93	60.37	15.01	14.50
January 1982	87.69	85.32	11.39	11.64	7.5	7.6	60.88	60.00	15.42	13.68
February	88.50	87.57	11.27	12.04	8.0	8.5	61.28	60.81	15.59	14.72
March	88.77	87.16	11.59	11.80	7.8	8.0	61.42	60.17	15.76	15.19
April	89.19	86.97	11.50	11.89	7.9	7.7	61.73	60.26	15.96	14.82
May	89.50	87.35	11.38	12.02	8.0	7.8	61.96	60.57	16.16	14.76
June	89.71	87.94	11.40	12.12	8.0	8.0	62.08	60.89	16.23	14.93
July	90.73	88.87	11.36	12.23	8.3	8.2	62.70	61.42	16.67	15.22
August	91.74	89.34	11.55	12.30	8.4	8.3	63.32	61.75	16.87	15.29
September	92.78	90.37	11.69	12.38	8.6	8.3	63.93	62.28	17.16	15.71
October	93.37	91.03	11.71	12.40	8.7	8.5	64.25	62.64	17.41	15.99
November	93.86	92.17	11.88	12.51	8.7	8.7	64.52	63.32	17.46	16.34
December	94.34	93.19	12.05	12.69	8.7	8.8	64.77	63.81	17.55	16.69

Fore. = February Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	0.937	0.946	0.606	0.614	0.865	0.865	229.8	229.8	151.4	150.2
September	0.914	0.899	0.607	0.623	0.850	0.850	230.9	231.5	151.9	150.5
October	0.902	0.854	0.508	0.507	0.722	0.722	229.9	230.5	150.2	150.6
November	0.894	0.860	0.560	0.554	0.723	0.723	231.6	232.2	148.5	149.5
December	0.913	0.882	0.593	0.550	0.789	0.789	229.3	235.8	145.0	152.1
January 1982	0.805	0.885	0.500	0.592	0.667	0.832	222.5	232.7	140.4	149.2
February	0.826	0.924	0.501	0.559	0.693	0.795	225.9	230.4	142.2	147.4
March	0.823	0.947	0.475	0.606	0.711	0.870	226.4	229.9	142.0	146.7
April	0.915	0.932	0.560	0.576	0.746	0.829	232.6	231.2	144.8	147.3
May	1.086	0.967	0.697	0.612	0.825	0.836	237.4	232.9	146.7	147.9
June	1.278	1.053	0.855	0.675	0.962	0.911	240.7	234.5	147.7	148.1
July	1.163	1.123	0.743	0.721	1.013	0.973	245.2	237.9	149.5	149.5
August	1.192	1.184	0.766	0.769	1.065	1.006	251.6	242.5	152.5	151.6
September	1.242	1.221	0.810	0.805	1.102	1.071	260.0	247.6	156.7	153.6
October	1.308	1.304	0.868	0.862	1.163	1.115	263.6	251.4	157.8	155.0
November	1.355	1.330	0.896	0.903	1.208	1.142	266.5	254.9	158.7	156.3
December	1.399	1.341	0.921	0.895	1.242	1.165	268.5	257.2	159.2	156.8

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	100.1	100.1	49.3	49.3	80.5	80.5
September	100.1	100.8	52.2	52.0	78.5	78.5
October	100.0	100.8	51.6	51.5	78.2	78.2
November	101.1	101.9	52.4	52.2	78.1	78.1
December	98.4	103.0	52.0	53.1	78.9	79.8
January 1982	96.9	102.8	50.6	51.6	75.0	78.3
February	98.4	102.9	52.3	51.1	75.2	76.4
March	100.0	102.2	52.0	50.4	74.4	77.3
April	102.7	101.9	52.3	50.7	77.6	78.6
May	105.3	102.5	52.6	51.2	79.5	79.2
June	106.8	102.9	52.5	51.3	81.4	80.3
July	105.9	103.4	52.8	51.8	86.5	82.7
August	105.7	103.0	53.2	52.3	92.7	87.2
September	105.4	103.3	53.5	52.6	101.1	91.7
October	106.3	103.8	53.8	53.0	103.5	94.6
November	107.7	103.5	54.1	53.4	104.7	98.0
December	108.9	103.2	54.5	53.7	105.1	100.3

Fore. = February Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durables Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August	273.4	273.4	87.35	87.35	24.70	24.70	24.57	24.57
September	276.6	276.6	86.28	86.28	23.03	23.03	24.61	24.61
October	278.4	278.4	77.80	77.80	21.00	21.00	23.53	23.53
November	279.5	279.5	79.96	79.96	23.81	23.81	24.43	24.43
December	277.2	276.4	80.18	79.76	22.81	22.52	24.46	24.75
January 1982	276.5	275.7	79.65	77.10	22.25	21.57	23.67	22.74
February	276.9	276.4	81.93	79.80	23.92	21.05	24.45	23.73
March	277.8	275.9	83.24	81.33	24.46	21.81	24.80	23.14
April	278.3	275.7	86.62	83.61	24.62	22.42	24.45	22.79
May	279.0	276.2	83.55	85.62	24.09	23.10	24.56	22.75
June	279.3	276.5	84.86	86.52	24.60	23.45	24.67	22.96
July	281.2	276.9	86.23	85.98	25.14	23.16	24.82	23.14
August	282.6	278.0	86.05	86.92	25.10	23.39	24.93	23.25
September	283.5	279.4	87.62	87.56	25.46	23.62	25.04	23.46
October	285.4	281.0	88.43	88.78	25.73	23.95	25.35	23.71
November	287.8	282.3	88.69	90.86	25.65	24.43	25.41	23.93
December	289.6	283.6	90.27	90.72	25.75	24.58	25.40	24.15

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August	502.5	500.8	4.42	4.42	153.6	153.6	79.6	79.6
September	508.1	506.4	4.21	4.21	151.6	151.6	78.7	78.7
October	511.7	510.0	4.34	4.34	149.2	149.1	76.6	76.5
November	515.1	513.4	4.50	4.50	146.4	146.3	74.8	74.7
December	514.1	513.3	4.57	4.63	143.3	143.3	72.9	72.9
January 1982	512.5	511.1	4.65	4.16	140.5	140.7	71.2	70.6
February	513.7	509.0	4.74	4.62	142.3	142.4	71.8	71.8
March	515.7	508.0	4.83	4.76	140.5	141.2	70.6	70.8
April	517.1	507.3	4.92	4.90	141.0	140.8	70.7	70.3
May	518.6	507.0	4.95	4.99	141.8	141.2	71.0	70.5
June	519.6	507.6	4.92	5.06	143.8	141.5	71.7	70.6
July	522.3	508.9	5.11	5.23	145.9	141.9	72.5	70.9
August	525.2	511.2	5.19	5.32	147.4	142.5	73.2	71.3
September	527.3	515.1	5.28	5.40	148.9	143.2	73.9	71.5
October	530.4	517.2	5.39	5.51	149.5	143.9	74.2	71.9
November	533.7	520.0	5.47	5.62	150.4	144.4	74.7	72.0
December	537.0	523.4	5.55	5.70	150.8	145.0	74.9	72.3

Fore. = February Forecast
C.E. = Current Expectations

PRICES

	CPI (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	276.5	275.9	271.5	272.1	307.2	307.2	137	137	1.9542	1.9554
September	279.3	278.9	271.5	272.6	307.2	307.4	134	134	1.9727	1.9715
October	279.9	280.1	274.0	274.2	308.8	309.0	130	130	1.9859	1.9914
November	280.7	281.5	274.5	275.5	309.1	309.3	130	130	1.9973	2.0011
December	281.5	282.6	275.3	276.1	310.1	310.1	128	128	2.0042	2.0106
January 1982	281.9	283.4	276.8	277.3	311.5	311.7	130	130	2.0165	2.0227
February	282.9	284.1	278.0	276.9	312.4	311.4	132	133	2.0342	2.0182
March	283.9	283.2	279.3	276.6	313.3	311.0	135	133	2.0511	2.0155
April	285.2	283.5	280.5	276.7	314.7	310.4	137	135	2.0592	2.0265
May	286.8	285.0	281.7	278.0	316.2	311.4	140	137	2.0678	2.0381
June	288.4	286.2	282.9	279.4	317.8	313.2	142	138	2.0756	2.0508
July	290.5	287.5	284.8	280.8	318.9	314.6	142	140	2.0892	2.0672
August	292.6	289.0	286.8	282.3	320.6	315.9	141	141	2.1050	2.0729
September	294.8	290.8	288.9	284.1	322.2	317.3	144	142	2.1201	2.0852
October	296.8	292.5	290.0	285.7	323.9	320.6	145	143	2.1336	2.1009
November	298.9	294.5	292.1	287.3	325.7	322.1	146	145	2.1451	2.1098
December	301.0	296.1	294.5	289.0	327.5	325.0	147	147	2.1566	2.1217

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	195.4	195.4	168.2	168.2	203.3	203.3	197.8	197.8	151.8	153.0
September	197.1	197.1	169.1	169.1	205.2	205.2	199.1	199.1	152.0	153.8
October	198.4	198.4	170.1	170.1	205.8	205.8	200.7	200.8	153.1	153.1
November	199.3	199.4	170.3	169.9	206.1	206.3	202.2	202.4	156.0	155.3
December	200.1	200.1	170.3	170.3	206.4	206.4	203.7	203.6	158.1	155.0
January 1982	201.3	201.7	171.7	172.6	207.6	207.8	205.1	205.6	158.5	156.0
February	202.7	201.7	171.5	171.6	208.9	207.3	206.6	206.2	158.9	156.3
March	204.0	201.9	173.1	171.5	210.2	206.5	208.0	207.1	159.4	156.7
April	205.0	202.4	173.7	172.6	211.0	206.3	209.2	208.0	160.6	156.9
May	206.0	203.3	174.4	173.4	211.9	207.1	210.4	209.0	161.8	157.5
June	207.1	204.3	175.0	174.2	212.8	207.9	211.6	210.1	163.0	158.3
July	208.5	205.4	176.0	175.0	213.9	208.9	213.3	211.4	164.0	159.1
August	209.8	206.4	177.0	175.8	215.2	209.8	215.1	212.6	165.0	160.0
September	211.1	207.6	178.1	177.0	216.5	211.0	216.9	213.8	165.9	161.2
October	212.3	208.7	179.0	178.0	217.6	212.2	218.2	215.0	167.1	162.2
November	213.5	209.9	179.9	179.2	218.6	213.3	219.4	216.2	167.9	163.1
December	214.7	210.9	180.9	180.2	219.6	214.5	220.6	217.3	168.7	164.0

Fore. = February Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	168.5	168.7	430.9	431.1	1767.0	1772.2	17.82	17.82	15.52	15.52
September	168.5	167.7	431.2	431.2	1778.1	1778.1	15.87	15.87	14.92	14.92
October	168.1	167.6	432.9	432.9	1789.3	1789.3	15.08	15.08	13.82	13.82
November	169.2	168.4	436.4	436.4	1809.6	1809.7	13.31	13.31	11.30	11.30
December	170.5	170.1	440.8	440.9	1821.8	1822.4	12.37	12.37	11.52	11.52
January 1982	171.2	171.2	447.3	448.6	1845.9	1840.9	13.22	13.22	12.83	12.83
February	172.2	173.0	446.0	447.3	1868.3	1847.5	14.65	14.78	14.36	13.61
March	173.3	173.9	446.2	448.2	1887.7	1864.7	13.38	14.68	13.37	12.77
April	174.0	174.9	447.8	453.6	1897.6	1884.1	12.71	15.09	12.57	12.89
May	174.6	175.8	449.6	455.1	1902.4	1894.1	12.32	14.63	12.05	12.95
June	175.3	176.3	451.3	455.2	1909.8	1900.2	12.35	14.48	11.80	12.63
July	176.4	177.0	454.9	456.7	1928.6	1912.2	13.95	15.23	13.19	13.29
August	177.5	177.5	458.3	457.6	1950.3	1921.7	15.43	15.02	14.06	13.02
September	178.6	178.0	461.7	458.7	1973.5	1931.7	16.76	13.68	14.51	12.56
October	179.5	178.4	463.0	459.4	1986.9	1940.4	17.46	13.09	14.76	12.13
November	180.4	179.3	463.9	461.7	1997.5	1955.9	18.03	11.62	14.85	11.45
December	181.3	180.2	464.9	463.1	2008.1	1967.7	18.30	10.84	14.85	10.72

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	14.89	14.89	12.26	12.26	17.23	17.23	17.96	17.96	20.50	20.50
September	15.49	15.49	12.92	12.92	16.09	16.09	16.84	16.84	20.08	20.08
October	15.40	15.40	12.83	12.83	14.85	14.85	15.39	15.39	18.45	18.45
November	14.22	14.22	11.89	11.89	12.16	12.16	12.48	12.48	16.84	16.84
December	14.23	14.23	12.90	12.91	12.12	12.12	12.49	12.49	15.75	15.75
January 1982	15.18	15.18	13.28	13.28	13.09	13.09	13.51	13.51	15.75	15.75
February	15.35	15.27	13.25	12.97	14.43	14.53	14.75	15.00	16.72	16.56
March	15.46	14.58	13.30	12.74	13.35	13.80	13.72	14.21	16.31	16.50
April	14.83	14.54	12.74	12.69	13.02	14.03	13.39	14.47	16.04	16.50
May	14.85	14.39	12.70	12.52	12.85	14.39	13.24	14.73	15.79	16.50
June	15.20	14.46	12.95	12.50	12.47	14.19	12.79	14.47	15.23	16.50
July	15.37	14.86	13.25	12.92	13.68	14.75	13.98	15.06	16.07	16.93
August	15.40	14.80	13.32	12.76	15.02	14.41	15.43	14.78	17.42	17.00
September	15.44	15.01	13.36	12.87	16.65	13.42	16.92	13.82	18.95	16.43
October	15.52	14.42	13.43	12.21	17.53	13.12	17.85	13.49	19.92	16.05
November	15.65	14.01	13.57	11.84	18.09	11.54	18.43	11.89	20.49	14.89
December	15.78	13.73	13.65	11.53	18.44	10.97	18.79	11.42	21.15	14.10

Fore. = February Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1981	-4478	-4212	133.3	134.2	2967	2975	1518	1521	28.7	25.8
September	-1574	-1724	131.1	130.8	2984	2972	1513	1507	34.1	23.3
October	-4191	-3914	128.8	128.6	2981	2999	1501	1506	25.6	24.1
November	-3404	-3356	128.6	128.2	2989	2997	1497	1498	20.4	22.0
December	-695	-861	129.4	127.8	2985	2999	1489	1492	20.6	25.3
January 1982	-2162	-4092	128.6	125.3	2985	2982	1480	1474	20.5	15.2
February	-1653	-387	128.0	124.7	3019	3010	1484	1491	23.6	9.6
March	-1202	-1705	128.3	124.0	3036	2993	1480	1485	22.8	8.2
April	-1463	-1943	129.6	123.8	3050	3004	1481	1482	23.9	8.0
May	-1526	-1935	130.9	124.7	3075	3018	1487	1481	25.8	8.5
June	-1956	-2011	132.0	126.3	3099	3045	1493	1485	27.4	10.4
July	-1685	-1942	133.1	128.0	3138	3074	1502	1491	28.2	12.3
August	-3126	-2321	133.2	128.9	3179	3101	1510	1496	25.3	15.7
September	-2585	-2446	132.7	129.5	3214	3133	1516	1502	29.6	18.9
October	-2463	-2821	133.9	130.2	3239	3164	1518	1506	31.2	19.9
November	-2662	-2542	134.8	130.8	3270	3197	1524	1515	31.3	21.3
December	-2861	-3063	135.5	130.9	3300	3218	1530	1517	31.3	23.1

Fore. = February Forecast
C.E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS
FOR APRIL

LATEST STATISTICS SHOW ECONOMY BOUNCING ON THE BOTTOM

Statistics currently available for April and May reveal an economy reaching for a bottom. Payroll employment fell only 24,000 in May and this decline was more than offset by the length of the workweek as the index of hours worked increased by 0.5%. Household employment increased sharply in May, but the seasonal factors raise questions as to the reliability of that number. As the statistics for May continue to develop, they are expected to show little evidence of recessionary pressures. Personal income and outlays should rise substantially. Retail sales were reported up 1.5%, following a revised 0.7% gain in April. Auto sales grew by a million units at annual rates to 8.2 million units. In April, private nonresidential construction reversed a modest downtrend to resume its upward momentum. Public construction fell sharply, but most state and local governments continue to generate operating surpluses. Moreover, the employment situation suggests that construction increased in May. Even inventories shifted from liquidation to expansion in April. However, this shift occurred because wholesalers sharply increased their inventories even as retailers and manufacturers continued to cut theirs. Apparently, wholesalers are currently financing inventories that otherwise would be held by retailers. Even the leading indicators rose modestly in April, as the financial variables all showed large gains even as other indicators declined modestly.

Our estimates of monthly GNP show modest improvement in May. Normally, this combination of statistical events would herald the beginning of economic recovery. However, the excess inventories held by wholesalers already appear to be leading to reduced orders and further inventory liquidations at the manufacturing level. Sensitive prices, which rose notably in May, already appear to be softening in the early weeks of June. Initial unemployment claims, which slowed to only 560,000 by early May, surged to 619,000 by the end of the month. In short, signs of an economic recovery during May are illusory. While activity strengthened in the month, the gains appear to reflect the transfer of heavy financial burdens from the retail and manufacturing sectors to the wholesale sector. June probably will experience a decline in monthly GNP before a more sustained economic expansion can begin in July.

This bouncing along the bottom means the initial leg of economic recovery will be much more subdued than previously anticipated. Our quarterly profile of GNP shows a gain of only 2.6% after adjustment for inflation during the summer. It also means that the reliquification of the corporate sector is being delayed. Unfortunately, the significant borrowing needs of the federal government will not be alleviated by improving corporate balance sheets. As a result, interest rates during the third quarter are expected to rise more significantly than anticipated in previous reports. Nevertheless, reliquification of the corporate sector should develop in earnest during the summer. As government borrowings are not expected to intensify, this shift in corporate cash needs should lead to moderating interest rates late in the year.

Finally, inflationary conditions are reappearing slightly more rapidly than had been expected. Consumer prices now are expected to rise in excess of 7% through the late spring and summer. Industrial prices should accelerate sharply in June and July, following a surprising reduction in estimated gasoline prices in the May report. Indeed, industrial price gains approaching 1% cannot be ruled out in June.

Obviously, this confluence of undesirable economic conditions has significantly disturbed the stock market. With the first stages of improving profitability being delayed by the protracted inventory liquidation process, genuine profits are not rising to the extent previously anticipated. On the other hand, interest rates now are expected to rise more substantially than in previous projections. This means that stock prices no longer can achieve the objectives anticipated several months ago.

Quarterly Profile of GNP

	1982-I	1982-II	1982-III	1982-IV	1983-I
Real	-4.3	0.3	2.6	5.5	4.0
Price	3.5	4.6	7.0	6.9	7.0
Nominal	-0.9	4.9	9.9	12.7	11.3

Monthly Statistical Highlights
for May 1982

Personal income, +0.8%; savings rate, 5.5%; personal consumption, +1.6%; housing starts, +2.4%; housing permits, -5.2%; construction expenditures, +0.2%; business inventories, -0.1%; orders for durable goods, +1.5%; orders for nondefense capital goods, +2.4%; CPI, +0.6%; consumption deflator, +0.5%; leading indicators, +0.6%.

Monthly Statistical Highlights
for June 1982

Payroll employment, -31,000; index of hours worked, UNC; household employment, -167,000; unemployment rate, 9.8%; personal income, +0.5%; savings rate, 5.2%; personal consumption, +0.9%; retail sales, +0.4%; automobile sales, 7.8 million units; housing starts, +6.3%; housing permits, +3.6%; construction expenditures, +0.1%; business inventories, +0.1%; orders for durable goods, +1.9%; orders for nondefense capital goods, +0.9%; industrial production, -0.1%; CPI, +0.6%; PPI, +0.8%; consumption deflator, +0.6%; leading indicators, -0.6%; M1, +5.4%; M2, +8.0%.

COMMENTARY

The Budget Review Process: Still A Non-Event

The Republican victory on the budget resolution in the House should be beneficial to credit markets, but only marginally. First, the expenditures levels incorporated in the House bill must be reconciled with those in the Senate bill. Second, our estimates show that government expenditures will be growing $750 billion at the beginning of FY 1983. Only a dramatic and sustained reduction in interest rates could possibly achieve the $756 billion of expenditures incorporated in the House resolution. Even with the best of intentions, expenditures must exceed the House guidelines by more than $20 billon. Third, the resolution process merely establishes goals from which expenditure and revenue programs must be enacted. Increasing taxes by $20 billion a month before a general election may be politically impossible. If so, the receipts contained in estimates of less than $100 billion deficits will fall short by more than $20 billion. Thus, the most likely deficit for FY 1983 remains in the $135-$140 billion range. Moreover, the claim that deficits will be trending downward remains unconvincing. Even with the budget resolution, our estimates of FY 1984 deficits show no reduction from those anticipated in the previous year. Indeed, if real economic activity expands by less than the 4.3% currently anticipated for calendar 1983, deficits still could be rising in that fiscal year.

Thus, the budget resolution is largely a non-event. However, absence of a resolution would mean that we would finance government by continuing resolution. Revenue enhancements would be even smaller than currently anticipated under this process. As the expanding programs of government, such as social security, defense, and interest payments on the debt would be met by supplemental resolutions, budget by continuing resolution would forestall reductions in programs currently designed to be pared by the budgetary process. Thus, the House compromise probably has reduced the expected deficit by $15 billion from what otherwise would have occurred. Moreover, the budgetary process remains in force. This process requires that the Senate and House establish broad guidelines before individual committees review individual programs. This procedure has some restraining impact upon government expenditures. Therefore, the maintenance of this process probably reduces growth in government spending.

Of course, claims that a budget was necessary to stabilize credit markets never were justified. When deficits are approaching the $150 billion range, a procedure that pares those deficits by $15 billion can have only marginal impact upon interest rates. The problem is not whether a budget is passed but rather the form and substance of those budgets which are being approved. The probability of increasing deficits during an economic recovery still is large. The economic destabilizing influence of the 1983 personal income tax cut remains substantial. Thus, none of the major destabilizing issues confronting credit markets have been altered by the budget compromise.

Employment

Estimates of household employment in May simply are not believable. Economic conditions are not strong enough to absorb the 777,000 people that the household survey appears to have measured. Similarly, the sharp growth in the labor force simply cannot be rectified with prevailing economic theory. Why should a million people enter the work force when unemployment rates already are historically high and rising? Even the claim that faulty seasonals resulted in these figures cannot be reconciled with the much more believable performance of payroll employment. Only the construction category appears to have shown any seasonal distortions, where construction payrolls rose 9,000 despite evidence that construction activity continues to weaken. The 0.2% decline in industrial production reported for May is broadly consistent with the modest upward movement of hours worked in the goods producing industries during May. Thus payroll employment, which showed a decrease of 24,000 jobs, appears to be more appropriate.

Further distortions are expected in the household sample during June. The survey week used to determine employment conditions is the week containing the 13th. As this 13th falls on a Sunday, employment will be surveyed at the latest possible time for June. Seasonals are estimated on the basis of average June employment conditions. Thus, more teenagers will be in the work force than the seasonals will expect. Furthermore, teenage unemployment rates are far above those for other categories. The result could be a move to a 10% unemployment rate in June. Normally, such a surge in unemployment is not fully reversed until the September survey. As initial unemployment claims after seasonal adjustment are again rising sharply, payroll employment should continue to fall in June. Indeed, the index of hours worked and industrial production may show declines in that month.

The hourly earnings index appears to be stuck at a 7.1% gain over previous year levels. In recent months nonunion salaries have exhibited stronger gains than in the union sector. A modest reduction below the 7.1% year-to-year gain should develop during the third quarter, as escalator clauses trigger less than normal wage gains. However, more rapid growth in the CPI during the latter half of 1982 could lead to a reacceleration of the hourly earnings index early in 1983. Wage inflation appears to remain near 8% after including compensation factors. As a result, only a dramatic improvement in productivity could lead to inflation rates below the 7% range. More rapid gains in the index of hours worked than in industrial production in recent months suggest that productivity will be declining in the second quarter. Our originial estimates that productivity could rise in the 1982 recession year appear to be dashed by hiring intentions.

Finally, the benchmark revisions are now incorporated in the payroll figures. A comparison between forecasts and currently expected values for the latter part of 1981 show that the revisions remove nearly 600,000 employees from the series. As a result, the labor input into our production relationships has been reduced. The result will be higher productivity numbers for 1981.

Personal Income and Outlays

In recent months, personal disposable income has grown much more rapidly than personal income as a result of a large reduction in tax payments. Much of this reduction reflects a one time adjustment in the dividend exclusion that was contained in the Windfall Profits Act of 1980. Indeed, tax liabilities fell by $6 billion in April because most of the dividend exclusion was included in that month. Thus, the substantial increase in personal savings in April primarily was the result of these nonrecurring tax changes. Savings rates are falling sharply at the present time, dictating a more significant increase in interest rates in the latter spring than had previously been anticipated.

Because of changes in seasonal adjustments, retail sales currently are not reflecting changes in consumer outlays. According to the more appropriate consumer outlays measures, consumer purchases of durable goods declined by $4 billion in April. Retail sales showed a dramatic increase in durable spending during that month. While the two series differ because purchases of used automobiles and some service components are captured in the retail sales figures, this dramatic discrepancy reflects inappropriate seasonals more than differential buying patterns. As seasonals must readjust during the year, retail sales in the latter part of 1982 should be growing more slowly than consumer outlays. This merely reinforces the need to accentuate the consumer outlays portion of the personal income report rather than use retail sales as a gauge of consumer activity.

Construction and Housing

The discrepancy between housing starts and housing permits narrowed to only 10,000 in April. Because sales of single-family homes reached a record low of 315,000, single-family starts fell notably in April. However, permits for multi-family housing are in excess of multi-family starts at the present time. This suggests two likely events. First, multi-family activity may accelerate during the third quarter. Second, housing permits should decline notably in the next few months. As permits are in the leading indicators, this would exert downward pressure on the indicators in the next few months.

Housing starts normally lead changes in the business cycle because of the disintermediation process. Near the end of recessions, market interest rates fall. As a result, funds would flow back into mortgage lending institutions, encouraging increased lending activity. However, elimination of most deposit ceilings has sharply reduced the disintermediation effect. Moreover, housing is being restrained by the price of mortgages rather than mortgage availability. As real rates of interest tend to lag a recovery, those interest sensitive activities directly related to real rates also tend to lag economic recovery. Now that disintermediation is not a significant factor in housing, the expected leading relationship of housing should be eliminated. Indeed, housing now should become a lagging indicator as it responds to the real interest rate factor instead of the mortgage availability factor. This has led to a dramatic reduction in our housing estimates for the remainder of 1982 and into 1983. Obviously it also leads to a slower economic recovery in the early phases than originally had been projected.

Private nonresidential construction activity bounced back in April after a one month dip in March. Significant weakness is expected to surface in the nonresidential construction market in the second half of 1982. Current activity appears to be responding to the surge in orders that developed in 1981. Orders now are dropping sharply and should be reflected in weak nonresidential activity well into 1983.

Business Activity

As noted in the introductory commentary, the big news in business activity is the imbalance in inventory holdings between retailers and manufacturers on the one hand and wholesalers on the other hand. This imbalance requires a second period of order and production weakness that may have begun in the latter part of May.

Also noteworthy is the large reduction in both orders and shipments of nondefense capital goods in April. The sharp reduction in shipments during April suggests that the plant and equipment anticipations, which are consistent with large reductions in the second quarter, will be realized. Moreover, cancellations remain a significant factor in the orders profile at the present time. Some of the reduction in durable goods orders reflects cancellation of aircraft orders. Those cancellations have been continuing, and could lead to further reductions in orders into the summer months. Because April shipments fell sharply, shipments are expected to climb in the latter part of the spring and into the summer months. However, backlogs are still shrinking, which normally means that shipments will continue to fade. Therefore, capital expenditures and GNP may be overstated in the third quarter.

Prices

Some of the acceleration in gasoline prices should be reflected in the consumption deflator before the end of the second quarter. However, most of the gasoline price reversal will impact the GNP and consumption deflators during the third quarter. This also will be the case for the PPI industrial commodity prices. The shift in rebates from those reducing auto prices to those reducing finance charges will shift the consumption deflators from a slowing in consumer durables to a slowing in the consumer services deflator. However, the shift in the mix of rebates should have little effect upon the total consumption deflator.

Miscellaneous

We are continuing to monitor the volatile components of the monthly GNP statistics, which include the inventory and trade figures. On a monthly basis we have uncovered a high negative correlation between inventory changes and changes in trade balances. This suggests that reporting differences in the timing of those two items may be distorting our monthly pattern of GNP changes. For example, merchandise trade balances turned significantly positive in April on the strength of a sharp decline in oil imports. Business inventories, which do not measure changes in inventories of energy materials at the primary stages of processing, rose in April. If these two factors are combined, estimated GNP would have increased sharply in that month. However, both industrial production and the index of hours worked indicate that estimated GNP declined in the month. We are continuing to monitor these forces and hope to eliminate the unusual monthly distortions created by these highly volatile items.

Because of the continuing decline in oil imports, current account balances are expected to remain positive throughout 1982. Unless interest rates decline significantly, this should lead to continuing strength in the dollar and continuing weakness in export sales. As we do not expect interest rates to decline at all until the fourth quarter, the export portion of the trade balances will continue to decline. Once inventories have reached desirable levels, imports should rise significantly. This explains projections of a gradual deterioration in trade balances as the year progresses. However, this decline still is not sufficient to cause current accounts to turn negative in 1982 because of large gains in the services component of the trade statistics. Again, weakness in exports caused by a strong dollar will mute the magnitude of economic expansion late in 1982 and early in 1983.

The leading indicators are expected to show little further expansion following surprisingly strong gains in April. Half of the April increase was caused by liquidity, which is an estimated weighted average of movements in the holdings of short-term instruments. Sensitive prices could contribute to a positive indicator in May, but all the evidence currently suggests that the leading indicators could decline in June.

Finally, the dramatic slowing of industrial inflation is leading to a dramatic slowing in the IVA. One method we use for estimating IVA shows a shift in sign in April. This appears to be slightly extreme, but definite slowing in the IVA category continues to develop.

Financial Markets

The demand for money appears to have shifted significantly outward in recent weeks. Between the first week in April and the first week in June, currency expanded at a 9.4% annual rate. This contrasts with an actual decline in M1 over the same period. However the early April surge in M1, that was generated because seasonal factors assumed a greater withdrawal from checkable deposits than has been occurring, was not reversed. Apparently, the Federal Reserve was disturbed by the failure of Drysdale Government Securities and provided the market with liquidity. This liquidity has resulted in an explosion in the monetary base, which has grown at a 10% annual rate in the latest three months. Now that the Drysdale affair has been absorbed by the markets, as evidenced by a return to a more normal relationship between Treasury Bills and other sensitive rates, reserves are beginning to generate increased deposit growth. Corporate liquidity problems remain intense because of the double adjustment in inventories that is being achieved by a second reduction in industrial prices. Thus, the profit squeeze remains intense. All of this means that the federal funds rate, which fell below 13.5% in the midst of the Drysdale affair, only temporarily declined because of liquidity needs. Now that this need is subsiding, the Federal Reserve must permit federal funds rates to trade in excess of 15% if they wish to reduce the monetary base to a level that would be consistent with money growth only slightly above the 5.5% maximum target.

The conclusion of all this discussion is that sensitive short-term rates should rise significantly through July. A prime rate approaching 18% appears to be likely near the end of summer. Rates are then expected to fall sharply. The demand for money should begin to lessen as corporate liquidity needs moderate after the beginning of economic recovery. Moreover, the portfolio problems created by the influx of government borrowings should be no more intense in the fourth quarter than in the third, unless Donald Regan's claim that only $32-$37 billion of new cash is needed in the third quarter is correct. Although the Treasury Secretary might have been thinking that such a claim would encourage the credit markets, such low borrowing needs during the summer would merely intensify borrowings in the fourth quarter. This would prolong the agony of very high interest rates.

In summary, interest rates appear to be heading upward in the next two months to a peak on short rates approaching 18% for the prime and a federal funds rate averaging over 15% in August. Rates then should trend downward in the fourth quarter. This is not a significant change from our analysis of a month ago, when we declared that interest rates could fall even as the economy began to recover. The only change is that a second period of corporate liquidity pressures appears to be developing in the early stages of the summer. As a result, government and corporate borrowings are intense during the same period. The third quarter increase in interest rates, which was anticipated in our analysis a month ago, is slightly more intense than originally expected. Rates are expected to decline in the fourth quarter.

Stock Market

A downward revision in economic activity during the third quarter along with a downward revision in corporate liquidity leads to a downward revision in sustainable equity values. Originally, we expected that equity values would maintain average second quarter levels in the third quarter. Because interest rates are higher and profit anticipations are lower, equity values may average no higher than 820 on the Dow in the third quarter. This means that a modest breech of the 795 low should be expected. However, a serious collapse to the 700 level cannot be justified unless the recession lasts longer and interest rates move considerably higher than contained in our projections. Stock prices should be rallying to above 900 before the end of this year and continue to move strongly higher in 1983. Our assessment that 1983 will be an unusually good year for long-term investors, either in bonds or equities, remains intact. Moreover, our assessment that portfolios should be realigned to profit by such an objective only after the summer testing of lows in both markets has been finished also appears to be warranted.

6/16/82

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	92033	91363	108.6	108.6	100258	100258	7.6	7.6	141.5	141.5
October	91832	91224	108.4	108.4	100343	100343	8.0	8.0	141.9	141.9
November	91507	90996	108.0	108.0	100172	100172	8.3	8.3	143.2	143.2
December	91110	90642	106.5	106.9	99613	99613	8.8	8.8	143.3	143.5
January 1982	90906	90460	105.3	104.3	99496	99581	8.7	8.5	144.5	144.9
February	90895	90459	106.5	106.2	99471	99590	8.9	8.8	145.7	145.0
March	90902	90304	106.2	105.6	99389	99492	9.1	9.0	147.8	145.4
April	90915	89993	106.2	105.0	99402	99340	9.3	9.4	148.2	146.2
May	90968	89969	106.4	105.5	99455	100117	9.4	9.5	148.5	147.4
June	91048	89938	106.7	105.6	99517	99950	9.5	9.8	149.0	148.0
July	91265	90021	107.0	105.8	99763	99884	9.4	9.8	150.2	148.9
August	91520	90163	107.3	106.0	100001	99939	9.3	9.8	151.4	149.6
September	91775	90279	107.6	106.3	100251	100191	9.3	9.6	152.5	150.5
October	91886	90472	107.8	106.6	100389	100577	9.2	9.5	153.3	151.1
November	91954	90661	108.0	106.8	100522	100827	9.3	9.4	154.0	152.2
December	92022	90843	108.0	106.9	100664	101025	9.3	9.3	154.5	152.9
January 1983	92167	90997	108.2	107.1	100793	101213	9.2	9.3	155.1	153.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	2.463	2.463	1.511	1.510	113.7	113.7	2.057	2.057	1.943	1.944
October	2.474	2.475	1.518	1.518	130.7	133.6	2.079	2.080	1.948	1.947
November	2.488	2.492	1.526	1.528	126.3	130.2	2.088	2.093	1.962	1.963
December	2.492	2.492	1.525	1.522	115.5	120.1	2.092	2.092	1.977	1.972
January 1982	2.492	2.498	1.520	1.531	103.6	110.2	2.092	2.103	1.988	1.993
February	2.506	2.513	1.529	1.543	97.5	106.1	2.103	2.112	2.006	2.006
March	2.514	2.523	1.533	1.541	95.0	129.9	2.107	2.124	2.012	1.994
April	2.535	2.531	1.548	1.538	99.6	135.4	2.124	2.140	2.024	2.004
May	2.557	2.551	1.563	1.552	104.5	118.0	2.140	2.153	2.036	2.035
June	2.581	2.565	1.578	1.559	108.5	111.9	2.161	2.164	2.053	2.052
July	2.611	2.594	1.591	1.570	143.9	158.7	2.213	2.224	2.069	2.065
August	2.629	2.612	1.604	1.580	132.7	157.2	2.227	2.239	2.094	2.082
September	2.651	2.632	1.617	1.594	126.9	156.5	2.243	2.256	2.116	2.100
October	2.673	2.655	1.633	1.610	133.4	155.7	2.262	2.275	2.129	2.119
November	2.693	2.677	1.646	1.625	129.9	156.2	2.275	2.294	2.145	2.138
December	2.713	2.692	1.659	1.634	129.7	151.9	2.291	2.306	2.161	2.154
January 1983	2.725	2.704	1.668	1.647	126.0	149.9	2.302	2.318	2.176	2.168

Fore. = February Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	1891.7	1891.7	233.4	233.4	754.6	754.6	903.8	903.8	959.7	959.7
October	1895.3	1894.6	226.3	226.3	755.2	755.2	913.7	913.1	955.3	954.8
November	1909.7	1910.6	226.4	226.2	761.4	761.7	921.8	922.6	958.2	958.2
December	1923.6	1919.7	226.2	226.7	766.2	764.0	931.2	928.9	961.3	959.4
January 1982	1935.6	1940.7	227.9	237.6	765.6	759.7	942.1	943.4	961.5	961.9
February	1953.5	1953.4	231.4	237.3	770.6	769.1	951.5	947.0	963.7	969.7
March	1958.5	1941.1	232.5	234.7	772.3	756.1	953.7	950.3	960.0	961.7
April	1971.2	1951.5	233.4	230.0	776.3	761.1	961.5	960.3	961.6	963.3
May	1982.9	1982.2	234.1	241.6	779.1	772.8	969.7	967.8	962.6	973.2
June	1998.2	1999.1	234.9	245.5	780.7	778.0	982.6	975.6	964.8	975.2
July	2015.0	2011.9	238.3	244.9	788.5	783.5	988.2	983.5	966.4	976.4
August	2039.7	2028.2	241.6	248.6	796.2	787.2	1001.9	992.4	972.2	979.8
September	2061.7	2045.5	245.2	251.2	803.9	795.1	1012.6	999.2	976.6	982.6
October	2073.5	2065.0	247.5	255.7	807.9	799.6	1018.1	1009.7	976.7	987.2
November	2088.9	2083.2	249.4	257.9	811.4	806.6	1028.1	1018.7	978.4	990.8
December	2104.6	2098.7	251.6	259.5	814.6	814.0	1038.4	1025.2	980.4	992.4
January 1983	2120.3	2112.8	253.3	260.1	819.5	818.9	1047.5	1033.8	983.1	991.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	88.70	87.82	11.75	12.15	8.7	8.7	60.32	60.01	16.63	15.66
October	86.66	86.41	11.38	11.84	7.2	7.2	60.06	60.34	14.94	14.51
November	87.23	86.73	11.39	11.84	7.3	7.6	60.73	60.30	15.11	14.60
December	87.54	86.57	11.60	11.71	7.3	7.3	60.93	60.37	15.01	14.50
January 1982	87.69	85.32	11.39	11.64	7.5	7.6	60.88	60.00	15.42	13.68
February	88.50	87.65	11.27	11.92	8.0	8.5	61.28	60.84	15.59	14.89
March	88.77	87.13	11.59	11.77	7.8	8.0	61.42	60.16	15.76	15.20
April	89.19	88.31	11.50	11.85	7.9	7.2	61.73	60.42	15.96	16.05
May	89.50	89.63	11.38	12.06	8.0	8.2	61.96	61.35	16.16	16.22
June	89.71	89.98	11.40	12.20	8.0	7.8	62.08	61.76	16.23	16.02
July	90.73	90.35	11.36	12.16	8.3	8.0	62.70	62.20	16.67	15.99
August	91.74	91.07	11.55	12.42	8.4	8.3	63.32	62.49	16.87	16.16
September	92.78	91.99	11.69	12.56	8.6	8.4	63.93	63.12	17.16	16.31
October	93.37	92.87	11.71	12.62	8.7	8.7	64.25	63.48	17.41	16.77
November	93.86	93.67	11.88	12.69	8.7	8.7	64.52	64.03	17.46	16.95
December	94.34	94.45	12.05	12.82	8.7	8.9	64.77	64.62	17.55	17.01
January 1983	94.96	95.06	12.08	12.75	8.8	9.0	65.16	65.01	17.72	17.15

Fore. = February Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	0.914	0.899	0.607	0.623	0.850	0.835	230.9	231.5	151.9	150.5
October	0.902	0.854	0.508	0.507	0.722	0.738	229.9	230.5	150.2	150.6
November	0.894	0.860	0.560	0.554	0.723	0.743	231.6	232.2	148.5	149.5
December	0.913	0.882	0.593	0.550	0.789	0.797	229.3	235.8	145.0	152.1
January 1982	0.805	0.885	0.500	0.592	0.667	0.803	222.5	232.7	140.4	149.2
February	0.826	0.945	0.501	0.568	0.693	0.792	225.9	233.0	142.2	149.1
March	0.823	0.941	0.475	0.627	0.711	0.851	226.4	234.1	142.0	148.9
April	0.915	0.881	0.560	0.564	0.746	0.871	232.6	232.9	144.8	147.3
May	1.086	0.902	0.697	0.560	0.825	0.826	237.4	233.4	146.7	146.8
June	1.278	0.977	0.855	0.612	0.962	0.856	240.7	233.6	147.7	145.7
July	1.163	1.005	0.743	0.637	1.013	0.924	245.2	234.1	149.5	145.0
August	1.192	1.060	0.766	0.682	1.065	0.938	251.6	235.2	152.5	144.9
September	1.242	1.124	0.810	0.743	1.102	0.985	260.0	237.8	156.7	145.6
October	1.308	1.144	0.868	0.767	1.163	1.006	263.6	240.8	157.8	146.9
November	1.355	1.226	0.896	0.824	1.208	1.113	266.5	244.6	158.7	148.6
December	1.399	1.278	0.921	0.863	1.242	1.146	268.5	250.1	159.2	151.1
January 1983	1.427	1.283	0.949	0.852	1.273	1.125	270.9	255.3	159.7	153.6

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	100.1	100.8	52.2	52.0	78.5	78.5
October	100.0	100.8	51.6	51.5	78.2	78.2
November	101.1	101.9	52.4	52.2	78.1	78.1
December	98.4	103.0	52.0	53.1	78.9	79.8
January 1982	96.9	102.8	50.6	51.6	75.0	78.3
February	98.4	105.2	52.3	51.6	75.2	76.2
March	100.0	104.0	52.0	53.3	74.4	76.8
April	102.7	105.6	52.3	50.4	77.6	76.9
May	105.3	106.2	52.6	51.0	79.5	76.2
June	106.8	106.0	52.5	51.6	81.4	76.0
July	105.9	105.8	52.8	52.1	86.5	76.2
August	105.7	105.5	53.2	52.0	92.7	77.7
September	105.4	105.2	53.5	52.6	101.1	80.0
October	106.3	105.5	53.8	53.0	103.5	82.3
November	107.7	105.8	54.1	53.3	104.7	85.5
December	108.9	105.9	54.5	54.0	105.1	90.2
January 1983	109.9	106.5	55.0	54.2	106.0	94.6

Fore. = February Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durables Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	276.6	276.6	86.28	86.28	23.03	23.03	24.61	24.61
October	278.4	278.4	77.80	77.80	21.00	21.00	23.53	23.53
November	279.5	279.5	79.96	79.96	23.81	23.81	24.43	24.43
December	277.2	276.4	80.18	79.76	22.81	22.52	24.46	24.75
January 1982	276.5	275.2	79.65	77.27	22.25	21.74	23.67	22.48
February	276.9	276.2	81.93	79.22	23.92	20.46	24.45	23.22
March	277.8	274.9	83.24	80.00	24.46	22.07	24.80	23.14
April	278.3	274.2	86.62	76.84	24.62	20.95	24.45	21.94
May	279.0	274.0	83.55	77.96	24.09	21.46	24.56	22.15
June	279.3	274.2	84.86	79.45	24.60	21.65	24.67	22.23
July	281.2	275.3	86.23	81.16	25.14	22.07	24.82	22.62
August	282.6	276.5	86.05	84.95	25.10	22.85	24.93	22.73
September	283.5	278.1	87.62	87.49	25.46	23.42	25.04	22.96
October	285.4	279.6	88.43	86.96	25.73	23.40	25.35	23.18
November	287.8	280.4	88.69	89.06	25.65	23.96	25.41	23.43
December	289.6	282.0	90.27	90.81	25.75	24.43	25.40	23.69
January 1983	291.5	283.7	92.43	91.45	26.16	24.92	25.76	23.92

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	508.1	506.4	4.21	4.21	151.6	151.6	78.7	78.3
October	511.7	510.0	4.34	4.34	149.2	149.1	76.6	76.6
November	515.1	513.4	4.50	4.50	146.4	146.3	74.8	74.8
December	514.1	513.3	4.57	4.63	143.3	143.4	72.9	73.1
January 1982	512.5	510.5	4.65	4.16	140.5	140.7	71.2	71.1
February	513.7	508.3	4.74	4.62	142.3	142.7	71.8	72.1
March	515.7	505.9	4.83	4.90	140.5	141.5	70.6	71.5
April	517.1	504.9	4.92	4.60	141.0	140.7	70.7	71.1
May	518.6	504.5	4.95	4.83	141.8	140.8	71.0	71.0
June	519.6	504.9	4.92	4.90	143.8	140.9	71.7	71.0
July	522.3	506.9	5.11	5.07	145.9	141.2	72.5	71.1
August	525.2	509.3	5.19	5.21	147.4	141.5	73.2	71.2
September	527.3	512.2	5.28	5.39	148.9	141.9	73.9	71.3
October	530.4	515.0	5.39	5.35	149.5	142.4	74.2	71.5
November	533.7	516.9	5.47	5.48	150.4	142.9	74.7	71.8
December	537.0	520.1	5.55	5.62	150.8	143.3	74.9	72.0
January 1983	540.7	523.4	5.78	5.76	151.4	143.8	75.2	72.3

Fore. = February Forecast
C.E. = Current Expectations

PRICES

	CPI (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	279.3	278.9	271.5	272.6	307.2	307.4	134	134	1.9727	1.9715
October	279.9	280.1	274.0	274.2	308.8	309.0	130	130	1.9859	1.9914
November	280.7	281.5	274.5	275.5	309.1	309.3	130	130	1.9973	2.0011
December	281.5	282.6	275.3	276.3	310.1	310.0	128	128	2.0042	2.0106
January 1982	281.9	283.4	276.8	277.3	311.5	311.7	130	130	2.0165	2.0178
February	282.9	284.1	278.0	276.9	312.4	311.4	132	133	2.0342	2.0173
March	283.9	283.3	279.3	276.5	313.3	311.0	135	133	2.0511	2.0201
April	285.2	284.0	280.5	276.7	314.7	309.9	137	135	2.0592	2.0286
May	286.8	285.7	281.7	278.7	316.2	310.4	140	138	2.0678	2.0403
June	288.4	287.6	282.9	280.6	317.8	312.3	142	140	2.0756	2.0544
July	290.5	288.9	284.8	281.9	318.9	313.9	142	141	2.0892	2.0657
August	292.6	290.2	286.8	283.2	320.6	315.2	141	142	2.1050	2.0755
September	294.8	291.6	288.9	284.8	322.2	316.8	144	144	2.1201	2.0873
October	296.8	292.9	290.0	286.3	323.9	318.9	145	145	2.1336	2.1003
November	298.9	294.5	292.1	288.0	325.7	320.6	146	147	2.1451	2.1104
December	301.0	296.0	294.5	289.8	327.5	323.1	147	148	2.1566	2.1218
January 1982	303.2	297.6	296.7	291.5	329.2	326.0	149	150	2.1676	2.1357

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	197.1	197.1	169.1	169.1	205.2	205.2	199.1	199.1	152.0	153.8
October	198.4	198.4	170.1	170.1	205.8	205.8	200.7	200.8	153.1	153.1
November	199.3	199.4	170.3	169.9	206.1	206.3	202.2	202.4	156.0	155.3
December	200.1	200.1	170.3	170.3	206.4	206.4	203.7	203.6	158.1	155.0
January 1982	201.3	201.8	171.7	172.5	207.6	207.9	205.1	205.7	158.5	156.0
February	202.7	201.4	171.5	170.8	208.9	207.0	206.6	206.2	158.9	156.3
March	204.0	201.8	173.1	171.0	210.2	206.7	208.0	207.2	159.4	157.2
April	205.0	202.6	173.7	170.9	211.0	207.0	209.2	208.3	160.6	158.1
May	206.0	203.7	174.4	172.6	211.9	208.5	210.4	209.2	161.8	159.0
June	207.1	205.0	175.0	173.0	212.8	210.6	211.6	210.3	163.0	160.3
July	208.5	206.1	176.0	173.8	213.9	211.5	213.3	211.5	164.0	161.4
August	209.8	207.0	177.0	174.6	215.2	212.3	215.1	212.7	165.0	162.3
September	211.1	208.2	178.1	175.3	216.5	213.5	216.9	214.0	165.9	163.3
October	212.3	209.2	179.0	177.1	217.6	214.4	218.2	214.9	167.1	163.9
November	213.5	210.2	179.9	178.0	218.6	215.6	219.4	215.9	167.9	164.6
December	214.7	211.5	180.9	179.2	219.6	216.6	220.6	217.3	168.7	165.5
January 1983	215.7	213.0	181.9	180.5	220.7	218.1	221.7	218.9	169.6	166.2

Fore. = February Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	-1574	-1724	131.1	130.8	2984	2972	1513	1507	34.1	23.3
October	-4191	-3914	128.8	128.6	2981	2999	1501	1506	25.6	24.1
November	-3404	-3356	128.6	128.2	2989	2997	1497	1498	20.4	22.0
December	-695	-861	129.4	127.8	2985	2999	1489	1492	20.6	25.3
January 1982	-2162	-4092	128.6	125.3	2985	2983	1480	1478	20.5	13.9
February	-1653	-387	128.0	124.8	3019	3002	1484	1488	23.6	10.2
March	-1202	-1747	128.3	124.2	3036	2990	1480	1480	22.8	6.2
April	-1463	456	129.6	125.2	3050	3011	1481	1484	23.9	4.5
May	-1526	-1243	130.9	125.3	3075	3028	1487	1484	25.8	5.9
June	-1956	-1821	132.0	125.1	3099	3044	1493	1482	27.4	8.6
July	-1685	-1069	133.1	126.4	3138	3079	1502	1491	28.2	10.9
August	-3126	-1816	133.2	128.0	3179	3103	1510	1495	25.3	13.6
September	-2585	-2342	132.7	129.3	3214	3118	1516	1494	29.6	16.1
October	-2463	-2015	133.9	130.4	3239	3177	1518	1513	31.2	18.5
November	-2662	-2362	134.8	132.3	3270	3189	1524	1511	31.3	20.3
December	-2861	-2640	135.5	135.1	3300	3217	1530	1516	31.3	20.6
January 1983	-2765	-2525	136.3	134.8	3328	3263	1535	1528	31.8	20.2

Fore. = February Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	168.5	167.7	431.2	431.2	1778.1	1778.1	15.87	15.87	14.92	14.92
October	168.1	167.6	432.9	432.9	1789.3	1789.3	15.08	15.08	13.82	13.82
November	169.2	168.4	436.4	436.4	1809.6	1809.7	13.31	13.31	11.30	11.30
December	170.5	169.9	440.8	440.9	1821.8	1822.4	12.37	12.37	11.52	11.52
January 1982	171.2	171.6	447.3	448.6	1845.9	1840.9	13.22	13.22	12.83	12.83
February	172.2	173.0	446.0	447.3	1868.3	1847.5	14.65	14.78	14.36	13.61
March	173.3	173.7	446.2	448.2	1887.7	1864.8	13.38	14.68	13.37	12.77
April	174.0	175.2	447.8	452.3	1897.6	1879.7	12.71	14.94	12.57	12.80
May	174.6	176.3	449.6	451.6	1902.4	1891.7	12.32	14.45	12.05	12.16
June	175.3	177.9	451.3	453.6	1909.8	1903.9	12.35	13.83	11.80	12.06
July	176.4	178.5	454.9	457.0	1928.6	1921.3	13.95	14.72	13.19	13.07
August	177.5	178.2	458.3	458.0	1950.3	1931.3	15.43	15.26	14.06	13.42
September	178.6	178.9	461.7	461.2	1973.5	1948.7	16.76	14.91	14.51	13.01
October	179.5	179.8	463.0	463.9	1986.9	1966.0	17.46	14.10	14.76	12.43
November	180.4	180.5	463.9	465.1	1997.5	1977.0	18.03	13.67	14.85	11.92
December	181.3	181.3	464.9	466.3	2008.1	1988.0	18.30	13.28	14.85	11.76
January 1983	182.2	182.2	466.0	468.3	2018.7	2002.5	18.26	12.95	14.49	11.53

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1981	15.49	15.49	12.92	12.92	16.09	16.09	16.84	16.84	20.08	20.08
October	15.40	15.40	12.83	12.83	14.85	14.85	15.39	15.39	18.45	18.45
November	14.22	14.22	11.89	11.89	12.16	12.16	12.48	12.48	16.84	16.84
December	14.23	14.23	12.90	12.91	12.12	12.12	12.49	12.49	15.75	15.75
January 1982	15.18	15.18	13.28	13.28	13.09	13.09	13.51	13.51	15.75	15.75
February	15.35	15.27	13.25	12.97	14.43	14.53	14.75	15.00	16.72	16.56
March	15.46	14.58	13.30	12.82	13.35	13.80	13.72	14.21	16.31	16.50
April	14.83	14.46	12.74	12.59	13.02	14.06	13.39	14.44	16.04	16.50
May	14.85	14.26	12.70	12.01	12.85	13.42	13.24	13.80	15.79	16.50
June	15.20	14.65	12.95	12.34	12.47	13.56	12.79	13.74	15.23	16.43
July	15.37	14.93	13.25	12.77	13.68	14.39	13.98	14.68	16.07	17.12
August	15.40	15.08	13.32	12.92	15.02	15.03	15.43	15.37	17.42	17.56
September	15.44	15.01	13.36	12.83	16.65	15.01	16.92	15.31	18.95	17.75
October	15.52	14.72	13.43	12.47	17.53	14.26	17.85	14.49	19.92	16.62
November	15.65	14.45	13.57	12.08	18.09	13.75	18.43	14.06	20.49	16.50
December	15.78	14.23	13.65	11.64	18.44	13.43	18.79	13.73	21.15	16.50
January 1983	15.71	13.86	13.52	11.25	18.35	13.27	18.72	13.46	21.50	16.26

Fore. = February Forecast
C.E. = Current Expectations

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GSU
Economic
Forecasting
Project
Newsletter

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MONTHLY PROJECTIONS
FOR MAY

RECOVERY IS NEAR BUT NOT YET HERE

As anticipated in our last Monthly Projections, most economic data for May show few signs of recessionary conditions. Of course, the diffusion index (the percentage of 172 industries showing employment increases) remained at recessionary levels. Also, a decline in industrial production, even if it is a minuscule 0.2%, does not measure actual recovery. Moreover, the coincident indicators were not positive in May. Nevertheless, most statistics, from the growth in personal income to consumer outlays, durable goods orders, shipments, and housing activity all were consistent with economic recovery. An earlier return to inventory accumulations in April also suggests that May was not a recessionary month. Our own estimates of inflation adjusted GNP for May show a slight increase. However, our estimates also show a modest increase in April, which certainly was a recessionary month.

The reasons behind the improvement in our estimates of monthly GNP during April and May provide insights into why the recovery still is so lackluster. In the monthly statistics two highly volatile areas of activity substantially distort monthly GNP estimates, the inventory and trade statistics. If inventory liquidations ended in April and if the trade statistics showed a significant surplus in April, then the declines in industrial production and payroll employment that also are measured for April could not have occurred. For that reason, one or both of the inventory and trade figures probably are not appropriately measuring activity in April. The most likely candidate for a timing distortion is the trade figures, which showed a surprising 14% reduction in imports other than petroleum in April followed by an 22% increase in non-petroleum imports in May. In all likelihood, imports probably grew modestly in both months. As a result, the measured increase in inventories reflects accumulations of imported goods. Thus, the sharp increase in goods held by wholesalers reflects no additional production in the domestic economy. Moreover, as those inventories held by wholesalers are excessive, some reduction in total orders, both domestic and foreign, soon should be forthcoming.

For example, imports of steel materials rose dramatically in May. Not coincidentally, steel production domestically slumped sharply in late May and early June. Only now is steel production moving from the exceedingly low points reached in early June. Similar shifts in domestic production appeared to develop in other industries early in June. Indeed, our monthly estimates of GNP indicate that June was not a recovery month.

Of course, large increases in real disposable income should encourage the consumer to increase spending during the summer. Moreover, inventory liquidations will disappear during the latter part of summer. This time, domestic production will be responsible for restocking the shelves. Thus, employment is expected to recover beginning in July.

If credit markets and the stock market react to changes in perceptions, then both markets may rally toward the end of July. Rallies will not be ignited by the feeling that recovery is eminent. Rather, two very negative economic statistics will be announced on July 16. On that date, the money supply for the week ending July 7 will be announced and should show an increase in excess of $7 billion. On the same day, the Producer Price Index for June should jump into double-digit territory. Except for the quarterly government funding to be announced late in July, few other economic conditions of such a negative nature should confront either market. If conditions are bad, but are improving from even worse conditions, then markets can rally. Of course, dramatic gains in credit market values cannot be anticipated as a result of the lessening of negative conditions.

Quarterly Profile of GNP

	1982-I	1982-II	1982-III	1982-IV	1983-I
Real	-3.7	0.6	3.1	4.6	5.7
Price	3.8	3.6	7.7	7.6	6.4
Nominal	0.0	4.3	11.0	12.5	12.4

Monthly Statistical Highlights
for June 1982

Personal income, +0.5%; savings rate, 5.2%; personal consumption, +0.4%; retail sales, -0.3%; automobile sales, 7.3 million units; housing starts, -7.1%; housing permits, -8.3%; construction expenditures, +2.0%; business inventories, -0.1%; orders for durable goods, +2.2%; orders for nondefense capital goods, +4.3%; industrial production, -0.2%; CPI, +0.7%; PPI, +1.1%; consumption deflator, +0.8%; leading indicators, -0.1%; M1, +1.9%; M2, +5.6%.

Monthly Statistical Highlights
for July 1982

Payroll employment, +166,000; index of hours worked, +0.3%; household employment, +75,000; unemployment rate, 9.8%; personal income, +1.3%; savings rate, 6.9%; personal consumption, +1.0%; retail sales, +1.3%; auto sales, 8.0 million units; housing starts, +5.4%; housing permits, +8.2%; construction expenditures, +1.2%; business inventories, unchanged; orders for durable goods, +1.8%; orders for nondefense capital goods, +3.0%; industrial production, +0.2%; CPI, +0.7%; PPI, +0.7%; consumption deflator, +0.7%; leading indicators, +0.6%; M1, +13.8%; M2, +13.8%.

COMMENTARY

Personal Income and Outlays

Personal income in May proved to grow more slowly than had been expected in our previous projections. Most of the shortfall in income was generated by less than anticipated gains for wages and salaries. Apparently, some downward revision probably developed for payrolls during May. Of greater significance was the large increase in tax liabilities. As mentioned a month ago, tax payments dropped sharply in April, partially to reflect the additional dividend exclusion that was permitted for one year only in the Windfall Profits Tax Act. Full reversal of that moderation of tax liabilities was not anticipated, but it occurred in May. As a result, the savings rate plunged to 5.2%. This greater than anticipated reduction in savings probably is partially responsible for the lower than anticipated auto sales during June. Because of these weak sales, consumer outlays in June are expected to grow more slowly than the inflation rate. Indeed, retail sales are expected to show a modest decline.

The combined influence of social security disbursements and withholding tax adjustments will significantly increase savings rates in July and beyond. Gradually, the consumer will translate some of this increased purchasing power into increased activity. However, a significant portion of the tax reduction is expected to contribute to higher savings rates than previously enjoyed by consumers.

Construction and Housing

Housing starts in May were surprisingly stronger than anyone had anticipated. Most of the 198,000 additional starts at annual rates in May reflected large increases in multi-family activity. This multi-family gain reflected significant government subsidies. Nevertheless, single-family activity rebounded despite poor sales performance.

Housing starts are expected to slip backwards slightly during the summer before again moving forward in the fall. First, government subsidies of multi-family activity will not be as intense in summer months as they were in May. Second, low housing inventories and the recent ruling by the Supreme Court that reduces nonconventional financing (and therefore the ability to sell previously occupied homes) should slow single-family sales for the remainder of 1982.

Even with this sluggishness in housing starts, previous strengths in the housing sector should gradually add to residential construction expenditures during the summer. At the same time, nonresidential construction activity is expected to remain strong until late in the year. Public construction, which reached a low point in April under weather-related pressures, is expected to rebound slightly more than had been anticipated in the May forecast. As a result, construction expenditures will be growing slightly more rapidly during the summer and fall than had been expected in our May forecast.

Business Activity

The increase in business inventories during April is expected to be replaced by inventory liquidations in May and June. When the magnitude of liquidations of petroleum products also is included, inventories will continue to fall sharply in the second quarter, though not as dramatically downward as during the first quarter of the year.

Shipments of durable goods rebounded in May following an unusually large reduction in April. The reason for the April reduction remains unclear, but the May figures clearly suggest that activity recovered from an unusual shipment level in the previous month rather than beginning a sustainable upward move. Shipments are expected to grow only grudgingly higher during the summer before beginning noteable upward gains in the fall.

Prices

Although most of the gains in the CPI during May reflected substantial increases in housing prices, a component not included in the consumer deflator, some gasoline increases also were present. As a result, the May deflator is expected to grow 0.6% and to accelerate slightly in June. Of course, significant growth in the nondurables component of retail trade will be generated as a result of these price movements, but they will not reflect increased real activity. After gasoline prices settle down, overall inflation is expected to remain in the 6-7% range.

Miscellaneous

As mentioned in the opening commentary, imports rose dramatically in May after plunging sharply in April. Clearly, economic conditions did not warrant such abrupt movements. A more likely explanation is some reporting problems that made reasonable timing of the trade category a difficult task. Some of the surge in imports reflect temporary conditions, such as the surge in steel products prior to anticipated market restraints. Imports also may be responding to previous orders, leading to excessive amounts of imported goods in the inventory holdings of wholesalers. Because the dollar has been extremely strong, exports are expected to continue trending downward through the remainder of 1982 and to lose 5% over the year after adjustment for inflation. Imports should trend downward during the third quarter as inventories are reduced. This suggests that current account balances will remain extremely strong through the summer months, preserving a very strong dollar. Only in the fourth quarter will imports be rising while exports continue to fall. Given the normal lag in response of trade patterns to changing currency values, international trade should not be a positive contributor to GNP until the second half of 1983.

Financial Markets

Bond dealers clearly are concerned about the avalanche of government bonds that will be forthcoming in the next month. They already are reducing their inventory holdings to insure that subscriptions of the current auctions will be more favorable than the less than twice over subscription that developed for the recent 5.5 billion notes. A repeat of a slim subscription level would be extremely dangerous to the bond markets and would lead to dramatically higher rates of interest. Even so, rates are expected to trend upward through much of July before some improvement resurfaces in August. The plunge in bond market prices may be over at the end of July, but the prime rate is expected to continue moving upward to the vicinity of 18% by the end of August.

Stock Market

The stock market has suggested that 780 on the Dow will be a formidable support level. Some analysts are using this reading to begin accumulating stocks. Our formula would suggest that such a movement remains premature, but the next significant change in stock prices appears to be upward. Operating profits should increase negligibly in the third quarter, but will be trending sharply upward during the fourth quarter. Our expected objective for improving stock market returns is nearly 30% between the summer of 1982 and the summer of 1983. After that time, further gains in equity values may not be easily generated. Plus, those concerned with achieving capital gains should begin to acquire equities, even though the disheveled bond market suggests that stock market values may not move above their lows until the second half of summer.

7/1/82

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	91832	91224	108.4	108.4	100343	100343	8.0	8.0	141.9	141.9
November	91507	90996	108.0	108.0	100172	100172	8.3	8.3	143.2	143.2
December	91110	90642	106.5	106.9	99613	99613	8.8	8.8	143.3	143.5
January 1982	90906	90460	104.3	104.3	99581	99581	8.5	8.5	144.9	144.9
February	90889	90459	106.2	106.2	99590	99590	8.8	8.8	145.8	145.0
March	90866	90304	105.6	105.6	99492	99492	9.0	9.0	146.6	145.4
April	90685	89993	105.0	105.0	99340	99340	9.4	9.4	147.3	146.2
May	90546	89969	105.0	105.5	99305	100117	9.5	9.5	147.7	147.4
June	90491	89876	105.1	105.3	99320	99852	9.7	9.8	148.2	148.0
July	90762	90042	105.4	105.6	99503	99927	9.7	9.8	149.3	148.9
August	90979	90163	105.7	105.8	99738	100075	9.5	9.8	150.2	149.7
September	91195	90288	105.9	106.0	99973	100290	9.4	9.6	151.2	150.6
October	91306	90426	106.2	106.2	100143	100488	9.3	9.5	152.0	151.3
November	91493	90625	106.4	106.5	100279	100643	9.2	9.4	152.8	152.2
December	91685	90802	106.7	106.7	100413	100923	9.2	9.3	153.6	153.0
January 1983	91874	90993	107.0	107.0	100682	101278	9.2	9.2	154.7	153.9
February	92016	91214	107.2	107.3	100893	101380	9.1	9.2	155.8	154.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	2.474	2.475	1.518	1.518	130.7	133.6	2.079	2.080	1.948	1.947
November	2.488	2.492	1.526	1.528	126.3	130.2	2.088	2.093	1.962	1.963
December	2.492	2.492	1.525	1.522	115.5	120.1	2.092	2.092	1.977	1.972
January 1982	2.498	2.498	1.531	1.531	109.8	110.5	2.103	2.103	1.993	1.993
February	2.513	2.513	1.543	1.543	109.8	107.4	2.115	2.112	2.005	2.005
March	2.526	2.523	1.541	1.542	114.6	123.5	2.126	2.125	2.011	2.001
April	2.539	2.532	1.540	1.539	120.8	134.0	2.137	2.140	2.016	2.006
May	2.554	2.548	1.552	1.547	119.3	111.9	2.148	2.144	2.029	2.032
June	2.570	2.560	1.566	1.550	119.1	110.9	2.160	2.152	2.041	2.041
July	2.599	2.593	1.577	1.564	154.8	152.1	2.213	2.213	2.058	2.061
August	2.620	2.612	1.589	1.575	147.6	147.4	2.227	2.228	2.079	2.081
September	2.645	2.632	1.601	1.587	144.4	148.1	2.245	2.244	2.101	2.096
October	2.665	2.655	1.617	1.601	142.7	147.5	2.261	2.263	2.118	2.116
November	2.686	2.677	1.630	1.615	147.7	148.4	2.279	2.281	2.131	2.133
December	2.709	2.700	1.644	1.627	156.8	151.7	2.299	2.300	2.142	2.148
January 1983	2.720	2.711	1.658	1.641	141.4	147.5	2.305	2.310	2.164	2.163
February	2.743	2.733	1.673	1.655	140.0	151.9	2.322	2.330	2.182	2.178

Fore. = May Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	1895.3	1894.6	226.3	226.3	755.2	755.2	913.7	913.1	955.3	954.8
November	1909.7	1910.6	226.4	226.2	761.4	761.7	921.8	922.6	958.2	958.2
December	1923.6	1919.7	226.2	226.7	766.2	764.0	931.2	928.9	961.3	959.4
January 1982	1940.7	1940.0	237.6	237.6	759.7	759.7	943.4	942.7	961.8	961.8
February	1952.6	1952.0	237.0	237.3	769.1	769.1	946.5	945.6	969.1	969.6
March	1958.8	1948.2	235.8	237.4	769.5	758.5	953.5	952.4	969.9	964.7
April	1963.6	1953.2	231.5	231.9	770.3	757.9	961.8	963.4	966.5	965.4
May	1976.0	1979.2	235.2	245.6	771.2	765.8	969.6	967.8	966.8	974.0
June	1988.1	1988.1	235.9	239.6	773.6	774.2	978.6	974.3	966.8	970.3
July	2005.2	2007.6	240.0	243.5	779.4	783.5	985.8	980.6	969.4	972.9
August	2026.1	2027.0	244.2	250.1	786.2	789.4	995.7	987.5	974.6	977.0
September	2047.0	2042.3	248.1	251.7	793.2	795.3	1005.7	995.3	979.9	979.1
October	2064.3	2061.6	250.6	254.3	798.9	801.2	1014.8	1006.1	981.3	982.9
November	2076.8	2078.4	252.2	257.2	803.0	806.9	1021.6	1014.3	982.0	986.2
December	2087.5	2093.8	252.0	261.1	807.5	811.7	1028.0	1021.0	981.6	988.0
January 1983	2108.8	2107.7	256.8	260.9	812.4	816.5	1039.6	1030.3	986.4	989.2
February	2126.9	2123.1	260.5	263.4	817.6	821.2	1048.8	1038.5	989.2	990.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	86.66	86.41	11.38	11.84	7.2	7.2	60.06	60.34	14.94	14.51
November	87.23	86.73	11.39	11.84	7.3	7.6	60.73	60.30	15.11	14.60
December	87.54	86.57	11.60	11.71	7.3	7.2	60.93	60.37	15.01	14.50
January 1982	85.32	85.32	11.64	11.64	8.2	8.2	60.00	60.00	13.68	13.68
February	87.65	87.65	11.92	11.92	8.5	8.5	60.84	60.84	14.89	14.89
March	87.13	87.28	11.77	11.78	7.8	7.8	60.16	60.32	15.20	15.18
April	87.00	87.90	11.72	11.82	7.2	7.2	60.22	60.14	15.06	15.94
May	87.50	89.24	11.92	11.88	7.7	8.2	60.29	60.78	15.29	16.58
June	87.77	89.00	11.92	11.93	7.8	7.3	60.48	61.45	15.37	15.62
July	88.69	90.18	12.03	11.97	8.0	8.0	60.93	62.18	15.73	16.03
August	89.72	91.41	11.93	12.01	8.3	8.5	61.47	62.65	16.32	16.75
September	90.71	92.06	11.99	12.05	8.5	8.6	62.01	63.12	16.71	16.89
October	91.63	92.83	11.97	12.09	8.6	8.7	62.64	63.59	17.02	17.15
November	92.25	93.61	12.12	12.19	8.5	8.8	63.08	64.04	17.05	17.38
December	92.72	94.44	12.10	12.23	8.6	9.0	63.46	64.42	17.16	17.79
January 1983	93.54	94.80	12.28	12.37	8.8	8.8	63.83	64.80	17.43	17.63
February	94.33	95.47	12.42	12.45	9.1	9.0	64.20	65.18	17.71	17.84

Fore. = May Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	0.902	0.854	0.508	0.507	0.722	0.738	230.5	230.4	150.6	149.5
November	0.894	0.860	0.560	0.554	0.723	0.743	232.2	233.0	149.5	151.8
December	0.913	0.882	0.593	0.550	0.789	0.797	235.9	235.8	152.2	152.1
January 1982	0.879	0.885	0.587	0.592	0.799	0.803	232.7	232.7	149.2	149.2
February	0.941	0.945	0.561	0.568	0.787	0.792	233.0	232.9	149.0	149.1
March	0.936	0.931	0.610	0.621	0.846	0.851	234.1	234.2	149.4	149.0
April	0.910	0.888	0.552	0.572	0.871	0.879	233.8	232.8	148.3	147.3
May	0.896	1.086	0.535	0.622	0.846	0.969	234.4	234.1	147.9	147.2
June	0.921	1.009	0.554	0.625	0.855	0.889	236.0	238.7	148.1	149.5
July	1.005	1.063	0.593	0.648	0.896	0.962	236.4	241.5	147.7	150.5
August	1.047	1.067	0.660	0.679	0.943	0.954	237.5	247.1	147.6	152.6
September	1.137	1.125	0.727	0.713	0.992	1.063	241.2	248.0	149.2	153.2
October	1.215	1.163	0.748	0.745	1.014	1.054	246.6	252.5	151.8	155.3
November	1.178	1.209	0.786	0.780	1.062	1.078	252.9	254.2	154.8	155.7
December	1.324	1.259	0.826	0.816	1.127	1.143	259.7	258.3	158.0	157.5
January 1983	1.310	1.287	0.838	0.845	1.156	1.162	262.0	263.8	158.7	160.1
February	1.315	1.381	0.852	0.912	1.173	1.215	264.4	269.3	159.4	162.6

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	100.8	100.9	51.5	51.1	78.2	78.3
November	101.9	102.4	52.2	52.4	78.1	78.2
December	103.0	103.0	53.1	53.1	79.8	79.8
January 1982	102.8	102.9	51.6	51.6	78.3	78.2
February	105.2	105.2	51.6	51.6	76.2	76.2
March	104.0	104.1	53.3	53.3	76.8	76.8
April	104.2	105.6	51.7	50.4	77.9	76.9
May	103.5	106.3	52.2	51.7	78.7	76.1
June	102.9	106.7	52.7	52.6	80.4	79.4
July	103.4	106.5	53.0	53.0	80.0	82.0
August	104.0	107.0	53.3	53.2	80.2	86.9
September	104.8	107.3	52.8	53.5	83.6	87.2
October	105.0	107.6	53.2	53.3	88.4	91.6
November	105.2	108.0	53.8	54.2	93.9	92.0
December	105.4	108.0	54.5	54.8	99.8	95.5
January 1983	105.9	108.4	54.2	55.1	101.9	100.3
February	106.8	108.8	54.5	55.6	103.1	104.9

Fore. = May Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durables Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	278.4	278.4	77.80	77.80	21.00	21.00	23.53	23.53
November	279.5	279.5	79.96	79.96	23.81	23.81	24.43	24.43
December	276.4	276.4	80.18	79.76	22.81	22.52	24.46	24.75
January 1982	275.7	275.2	77.27	77.27	21.74	21.74	22.48	22.48
February	276.2	276.2	79.22	79.22	20.46	20.46	23.22	23.22
March	275.3	274.9	80.00	80.50	22.07	22.07	23.14	23.14
April	274.8	274.2	78.43	77.63	21.62	21.44	22.75	21.94
May	274.4	274.5	79.26	78.73	21.55	20.44	22.67	22.62
June	274.0	274.0	80.25	80.45	22.48	21.32	22.98	22.67
July	274.2	274.2	81.79	81.90	22.96	21.96	23.05	22.92
August	274.7	274.6	83.26	82.62	23.07	22.47	22.97	23.05
September	275.4	275.1	83.45	83.72	23.15	23.02	23.02	23.12
October	276.0	275.6	84.42	82.35	23.48	22.66	23.25	23.36
November	276.5	276.2	87.29	83.43	24.12	23.05	23.40	23.45
December	277.1	277.0	87.62	84.29	24.29	23.25	23.56	23.62
January 1983	278.7	277.8	88.95	85.23	24.56	23.74	23.78	23.75
February 1983	280.2	278.5	90.76	87.46	25.01	24.01	23.93	23.92

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	511.7	510.0	4.34	4.34	149.2	149.1	76.6	76.6
November	515.1	513.4	4.50	4.50	146.4	146.3	74.8	74.8
December	513.3	513.3	4.57	4.63	143.3	143.4	72.9	73.1
January 1982	510.9	510.5	4.16	4.16	140.7	140.7	71.1	71.1
February	509.6	508.3	4.62	4.62	142.5	142.9	72.0	72.2
March	507.1	507.6	4.90	4.90	141.5	141.7	71.5	71.7
April	505.3	508.5	4.65	4.60	140.5	140.6	71.0	71.0
May	503.6	508.2	5.07	4.97	140.0	140.3	70.7	70.8
June	502.5	507.5	5.11	5.03	142.5	140.0	71.6	70.5
July	503.9	507.3	5.20	5.14	144.0	140.3	72.4	70.7
August	504.7	508.2	5.28	5.28	145.4	140.7	73.1	70.9
September	505.6	508.5	5.37	5.41	146.8	141.3	73.8	71.4
October	507.5	509.5	5.49	5.32	147.3	142.1	74.2	71.7
November	509.4	510.9	5.73	5.41	147.6	143.7	74.4	72.6
December	511.4	512.8	5.96	5.65	148.0	144.6	74.6	73.4
January 1983	514.8	514.7	5.90	5.78	149.9	145.3	75.7	73.9
February	518.4	517.2	5.92	5.88	151.8	146.8	76.4	74.3

Fore. = May Forecast
C.E. = Current Expectations

PRICES

	CPI (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	279.9	280.1	274.0	274.2	308.8	309.0	130	130	1.9859	1.9914
November	280.7	281.5	274.5	275.5	309.1	309.3	130	130	1.9973	2.0011
December	281.5	282.6	275.3	276.3	310.1	310.0	128	128	2.0042	2.0106
January 1982	283.4	283.4	277.3	277.3	311.7	311.7	130	130	2.0178	2.0189
February	284.1	284.1	276.9	276.9	311.4	311.4	133	133	2.0173	2.0195
March	283.3	283.3	276.5	276.5	311.0	311.0	133	133	2.0201	2.0213
April	284.0	284.0	276.7	276.8	310.5	309.9	135	135	2.0326	2.0265
May	285.4	286.8	278.5	276.8	311.7	309.6	137	138	2.0455	2.0362
June	286.8	288.8	279.0	279.5	312.9	310.8	138	137	2.0599	2.0513
July	288.3	290.8	280.6	281.5	314.3	312.4	140	135	2.0707	2.0651
August	289.7	292.1	282.1	283.1	315.8	313.6	141	134	2.0805	2.0766
September	291.1	293.5	284.0	284.8	317.3	315.2	142	136	2.0903	2.0864
October	292.8	294.8	286.1	286.3	319.6	318.0	144	137	2.1130	2.1042
November	294.4	295.4	287.9	287.4	320.8	319.9	145	140	2.1210	2.1141
December	296.0	296.2	289.8	288.6	322.1	321.2	147	143	2.1301	2.1250
January 1983	297.3	297.7	291.3	290.0	323.8	322.2	145	145	2.1429	2.1355
February	298.7	299.0	293.4	291.2	325.5	323.5	150	146	2.1573	2.1475

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	198.4	198.4	170.1	170.1	205.8	205.8	200.7	200.8	153.1	154.1
November	199.3	199.4	170.3	169.9	206.1	206.3	202.2	202.4	155.3	153.6
December	200.1	200.1	170.3	170.3	206.4	206.4	203.7	203.6	155.0	155.0
January 1982	201.8	201.7	172.5	172.5	207.9	207.9	205.7	205.5	156.0	156.0
February	201.5	201.3	171.1	170.8	207.0	207.0	206.2	205.9	156.4	156.2
March	202.0	202.0	172.1	171.9	206.7	206.8	207.0	207.1	156.7	157.2
April	203.2	202.3	173.0	171.6	207.4	206.2	208.5	208.2	157.7	158.1
May	204.4	203.2	173.7	171.9	208.5	207.7	210.1	209.3	158.5	159.0
June	205.6	204.9	174.4	172.4	209.6	210.0	211.6	210.6	159.4	159.7
July	206.8	206.3	175.6	172.8	210.8	212.3	212.9	211.8	160.1	160.5
August	207.9	207.5	176.5	173.3	211.8	213.9	214.1	213.0	160.9	161.2
September	208.9	208.6	177.4	173.9	212.7	215.0	215.3	214.3	161.7	161.9
October	210.4	209.7	178.3	175.0	214.1	216.1	217.0	215.5	162.5	162.6
November	211.5	210.8	179.1	176.1	215.3	217.0	218.2	216.6	163.4	163.3
December	212.7	211.9	179.9	177.3	216.5	218.2	219.4	217.8	164.4	164.0
January 1983	213.8	213.1	181.7	178.9	217.4	219.1	220.9	218.9	165.1	164.8
February	215.0	214.4	181.5	180.0	218.3	220.3	222.6	220.4	165.9	165.6

Fore. = May Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	-4191	-3914	128.6	128.6	2981	2999	1501	1506	24.1	24.1
November	-3404	-3356	128.2	128.2	2989	2997	1497	1498	22.0	22.0
December	-695	-861	127.8	127.8	2985	2999	1489	1492	25.3	25.3
January 1982	-4092	-4092	125.3	127.8	2987	2994	1480	1483	13.9	13.6
February	-387	-387	124.8	124.8	3006	3001	1490	1486	10.2	10.5
March	-1747	-1747	124.2	124.2	2993	3000	1482	1484	6.2	6.2
April	-427	456	123.7	125.2	3012	3015	1482	1488	3.5	4.5
May	-2155	-2340	124.5	126.4	3042	3033	1487	1489	4.0	4.0
June	-2505	-2162	125.5	126.3	3047	3043	1479	1483	5.4	5.9
July	-1825	-1765	126.8	127.1	3086	3077	1490	1490	10.7	9.8
August	-2962	-2026	128.0	127.9	3125	3110	1502	1497	14.8	11.8
September	-2554	-2329	130.2	129.5	3164	3145	1513	1507	18.9	15.9
October	-2163	-2067	130.0	130.8	3193	3176	1511	1509	20.5	18.6
November	-2865	-2573	130.5	131.7	3215	3202	1516	1514	22.3	20.5
December	-3540	-2723	131.3	133.0	3244	3233	1523	1521	24.0	22.3
January 1983	-2963	-2546	131.9	132.6	3289	3267	1535	1529	20.6	22.2
February	-2987	-2691	132.6	132.7	3325	3299	1541	1536	19.5	20.5

Fore. = May Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	167.6	167.6	432.9	432.9	1789.3	1789.5	15.08	15.08	13.82	13.82
November	168.4	168.4	436.4	436.4	1809.7	1809.9	13.31	13.31	11.30	11.30
December	169.9	169.9	440.9	440.9	1822.4	1822.7	12.37	12.37	11.52	11.52
January 1982	171.6	171.6	448.6	448.6	1840.9	1841.3	13.22	13.22	12.83	12.83
February	172.9	173.0	447.3	447.3	1847.5	1848.0	14.78	14.78	13.61	13.61
March	173.3	173.7	448.0	448.3	1864.5	1865.2	14.68	14.68	12.77	12.77
April	174.5	175.2	453.9	452.3	1880.3	1880.7	14.31	14.94	12.21	12.80
May	175.5	176.4	454.9	451.6	1892.5	1896.9	14.04	14.45	11.96	12.16
June	176.4	178.2	455.8	452.3	1905.1	1905.5	15.21	14.23	13.04	12.65
July	177.0	178.6	457.3	457.2	1914.6	1926.1	15.60	15.09	13.28	13.43
August	177.7	179.1	458.3	458.9	1924.2	1939.0	15.73	15.36	13.63	13.86
September	178.5	179.6	459.2	460.7	1938.7	1950.5	15.65	15.02	13.46	13.53
October	179.4	180.3	461.8	462.7	1948.9	1964.8	14.29	14.63	12.29	12.46
November	180.3	181.0	464.0	464.6	1965.1	1976.8	13.72	14.29	11.93	12.01
December	181.2	181.8	466.4	466.9	1982.2	1990.5	13.64	13.68	11.72	11.95
January 1983	182.3	182.5	467.5	468.8	1996.3	2004.6	13.69	13.55	11.65	11.86
February	183.3	183.2	470.4	470.8	2007.5	2019.2	13.58	13.01	11.71	11.62

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1981	15.40	15.40	12.83	12.83	14.85	14.85	15.39	15.39	18.45	18.45
November	14.22	14.22	11.89	11.89	12.16	12.16	12.48	12.48	16.84	16.84
December	14.23	14.23	12.91	12.91	12.12	12.12	12.49	12.49	15.75	15.75
January 1982	15.18	15.18	13.28	13.28	13.09	13.09	13.51	13.51	15.75	15.75
February	15.27	15.27	12.97	12.97	14.53	14.53	15.00	15.00	16.56	16.56
March	14.58	14.58	12.82	12.82	13.80	13.80	14.21	14.21	16.50	16.50
April	14.35	14.46	12.46	12.59	13.75	14.06	14.16	14.44	16.50	16.50
May	14.26	14.26	12.12	12.25	13.86	13.42	14.22	13.80	16.50	16.50
June	14.48	14.65	12.38	12.69	14.82	14.16	15.09	14.54	16.50	16.50
July	14.73	15.08	12.79	13.20	15.03	14.95	15.43	15.43	17.12	17.08
August	14.99	15.42	13.12	13.57	15.35	15.35	15.76	15.79	17.21	17.52
September	14.95	14.93	13.04	12.97	15.49	15.21	15.89	15.53	17.35	18.00
October	14.62	14.75	12.60	12.61	14.43	14.76	15.02	15.14	16.65	17.69
November	13.78	14.33	11.59	12.15	13.95	14.25	14.51	14.62	15.98	17.02
December	13.56	14.29	11.32	12.03	13.86	13.78	14.32	14.29	15.65	16.45
January 1983	13.69	13.74	11.57	11.35	13.75	13.59	14.17	14.02	15.50	15.95
February	13.82	13.53	11.72	10.99	13.49	13.25	13.89	13.65	15.50	15.42

Fore. = May Forecast
C.E. = Current Expectations

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8/6/82

GSU Economic Forecasting Project Newsletter
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MONTHLY PROJECTIONS
FOR JUNE

ECONOMY SLOWLY FALLING OUT OF RECESSION IN JULY

June unquestionably was a recession month. Payroll employment fell 141,000 and might have fallen another 90,000 except for an early survey week, which counted some teachers as if they had found new employment in June. The index of hours worked declined 0.6%, industrial production fell 0.7%, and the coincident indicators fell 0.9%. Only one-third of all reporting industries showed employment growth in the month. Our preliminary monthly GNP estimates for June after revision for inflation are $1472 billion, or nearly $5 billion below second quarter averages. Indeed, economic weakness was widespread. Trade deficits widened, retail sales fell 1.5%, consumer outlays declined 0.5%, durable orders declined 1.6%, (including a sharp 5.5% decline for the important nondefense capital goods category), and housing sales fell 14% to 343,000. This was consistent with an earlier announcement of a 15% drop in housing starts.

This weakness in economic activity probably accounted for the initial weakness observed in money demand. The ratio of M1 to the monetary base, which had been nearly steady at 2.58 through the first four months of 1982, fell to 2.52 in June. Even currency demand flattened, suggesting that the basic transactions demand for money rather than special shifts between bank assets accounted for reduced money demand. This weakness in the demand for money persisted through July. The money surge anticipated for the week ending July 7 amounted to only $5.9 billion, of which $7 billion could be explained by technical conditions. Reserves were naturally withdrawn as an excess supply of reserves caused the federal funds rate to plunge toward and below the discount rate. Borrowed reserves fell by nearly $1 billion. By mid July, the Federal Reserve felt that it needed to prevent further declines in borrowed reserves by reducing the discount rate. Reserves also were injected into the system. Rates on federal funds stabilized near the end of July but the slowing in money growth induced by this weak money demand encouraged the Federal Reserve to actively accommodate lower rates. This shift toward moderate ease by the Federal Reserve along with any consumer stimulus generated by social security adjustments and tax withholding reductions should encourage final demand to grow modestly during the third quarter.

Nevertheless, GNP growth in the summer months is now expected to be slightly weaker than in the spring. After adjustment for inflation, GNP expanded $6.1 billion in the second quarter, of which $8.9 billion reflected a change in automobile inventory holdings. Another $2.9 billion reflected surprising growth in factor incomes earned abroad. Because of weak automobile sales (which are inspiring production reductions) inventory changes in that sector could return to negative territory in the summer. Moreover, a continuation of rapid growth of factor income abroad is unlikely. Thus, more rapid growth in consumer activity and in residential construction spending during the third quarter may be needed merely to offset these areas of weakness. (Of course, the sharp slowing in Commodity Credit Corporation purchases that developed in the spring should not persist into the summer.)

Sensitive prices suggest that economic activity may have begun trending upward in mid July. Confirmation of this performance may be seen in the downward trend in initial unemployment claims, although such claims moved up to 539,000 in the latest week. Finally, some sensitive production indicators such as steel activity and rail freight movement suggest that a moderate economic expansion is currently developing. It is clear, however, that the magnitude of economic expansion at the present time is minimal.

Fortunately, much of the reduced employment that is currently developing is related to cost-cutting measures. Productivity now is beginning to expand. Unit labor cost in the private economy during the second quarter grew only slightly greater than at a 2% annual rate. Industrial inflation, while remaining moderate, was more substantial than that. As a result, the worst stresses on corporate liquidity are over. For the next nine to twelve months the corporate sector is expected to be a net supplier of funds to the economy. While government borrowings are intense, approaching $165 billion on a NIA basis during the summer quarter, they are not expected to intensify from third quarter levels. Therefore, long-term interest rates may be trending downward through the first half of 1983, with only a brief period of interest rate rebound during the fall.

Unfortunately, the stock market has not yet confirmed that corporate liquidity problems are not intensifying. Equity values fell slightly in July from June averages. This performance may reflect undue concern about the economic health of financial institutions following the failure of Penn Square. If so, a significant stock market advance is possible by late summer.

Quarterly Profile of GNP

	1982-I	1982-II	1982-III	1982-IV	1983-I	1983-II
Real	-5.1	1.7	1.2	4.6	2.7	3.4
Price	4.3	5.3	8.3	7.1	6.7	6.7
Nominal	-1.0	7.1	9.6	12.0	9.6	10.4

Monthly Statistical Highlights
for July 1982

Payroll employment, -34,000; index of hours worked, +0.1%; household employment, -43,000; unemployment rate, 9.7%; personal income, +1.1%; savings rate, 8.1%; personal consumption, +1.1%; retail sales, +1.6%; auto sales, 7.6 million units; housing starts, +5.0%; housing permits, -8.0%; construction expenditures, +0.6%; business inventories, -0.3%; orders for durable goods, +3.0%; orders for nondefense capital goods, +3.2%; industrial production, +0.1%; CPI, +0.5%; PPI, +0.5%; consumption deflator, +0.7%; leading indicators, unchanged; M1, +0.8%; M2, +2.2%.

Monthly Statistical Highlights
for August 1982

Payroll employment, +140,000; index of hours worked, +0.3%; household employment, +157,000; unemployment rate, 9.8%; personal income, +0.8%; savings rate, 7.9%; personal consumption, +1.0%; retail sales, +1.1%; auto sales, 8.0 million units; housing starts, +4.6%; housing permits, +2.8%; construction expenditures, +1.4%; business inventories, unchanged; orders for durable goods, +3.6%; orders for nondefense capital goods, +6.2%; industrial production, +0.3%; CPI, +0.4%; PPI, +0.4%; consumption deflator, +0.6%; leading indicators, +0.4%; M1, +8.9%; M2, +12.7%.

GNP REVISIONS

On the surface, the GNP data revisions from 1977 to the present show few surprises. The most noteworthy change has been in consumer outlays, where a sharp reduction in consumer spending in the last two years has resulted in a large upward revision in consumer savings. For example, savings rates were initially recorded as 5.2% in May but are now listed as 6.0%. However, several components of the GNP have changed their characteristics as a result of this revision and must be incorporated in future analysis.

First, virtually all the 0.5% per year reduction in real growth for consumer expenditures resides in the nondurables and services. As these components are more closely related to anticipated permanent income, downward estimates of expected income streams by consumers (leading to slower consumption growth for any given level of income) seem to be appropriate. The largest downward revisions occurred in food consumption, fuel oil consumption, housing services, and transportation services. In the latter two categories, expenditures were not significantly altered but increasing prices led to the downward adjustments in real expenditures. Partially offsetting these reductions was a 2.5% annual increase for the period in the consumption of electricity and gas.

Second, purchases of goods and services by government entities also were overstated. At the federal level most of this overstatement occurred in the purchases of services by defense. At the state and local level, both services and structures were overstated. As these reduced purchases were offset by higher spending for compensation at all levels of government and by slightly higher government payrolls, total government spending was not significantly changed.

Third, and most important, the growth of spending for producers' durables was revised upward by a 2% annual rate. As recently as the fourth quarter of 1981 the net growth of producers' durable capital was in excess of 4.5% at annual rates. Thus, the growth of capital has not been eroding as rapidly as previously thought. On the other hand, our estimates of the utilization of existing capital have been reduced. As a result, projections of capital spending will be lowered for any given rate of expansion in economic activity. This suggests a more prolonged slump in capital spending than we had previously been projecting.

Although national income remained largely unchanged, the composition of income was significantly altered. Because of a significant downward revision in other labor income, compensation of employees was reduced by nearly $10 billion. Nonfarm proprietors' income was revised downward by more than $11 billion despite a shift from a negative capital adjustment in that sector to a significant and growing positive adjustment. (Current tax laws appear to be overstating capital costs in that sector). These downward revisions are offset by significant upward revisions in interest income. Indeed, the share of income accruing to capital is revised upward slightly while unit labor costs are reduced.

Finally, the operating budgets of state and local governments have been revised from a modest surplus in the original estimates to more than a $6 billion deficit. This deficit means that tax increases at the state and local level will accelerate while expenditures will fall short of previous estimates.

In general, the data revisions imply that economic growth will be slower under this environment than under the previous estimated GNP accounts; for growth of consumer outlays will be slower, capital spending will decline more intensely, and state and local government expenditures will grow more slowly than previously anticipated.

Economic Implications of the Latest Tax Bill

Approximately a third of the reductions in effective corporate taxes that were passed in 1981 will be reversed by the 1982 Tax Act. The investment tax credit is modified, as one half of the credit must be used to reduced the basis on which accelerated depreciation can be used according to the Cost Recovery Act. Six preference items are included in the 15% minimum corporate tax, including the tax advantages from sale-leaseback purchases and any interest expenses that can be construed as offsetting tax-free interest income. Effectively, tax-free instruments will receive a 15% tax levy. The provisions also affect the depletion and intangible items used by energy companies. Corporations will be required to accelerate their estimated tax payments, while a 50% ceiling will be placed upon capital equipment that can be financed through sale-leaseback arrangements. Moreover, companies purchasing such tax liabilities must use straight line depreciation schedules and cannot reduce their tax liability by more than 50% through such purchases. Changes in the tax treatments of mergers and in the expensing of multi-year contracts are expected to raise more than $1.5 billion. Finally, the treatment of income received in American territories will be sharply altered, substantially reducing the tax incentives that exist in Puerto Rico. While most corporations still are receiving net benefits from the combined impact of the two tax changes, some energy, bank, insurance, and drug companies with facilities in Puerto Rico may face higher tax liabilities than before the advent of the Reagan Administration.

The most noteworthy shift in the tax treatment of investments is the 10% withholding on interest and dividends. While designed to increase compliance (about 19% of interest income is unreported according to IRS estimates), it will also provide a one time prepayment of partial taxes on those forms of income. The re-investment provision for those investing in public utilities is eliminated in this tax bill. Partly to offset some of the adverse effects upon portfolios, the tax bill reduces the capital gains period from one year to six months. (By unlocking some transactions, this provision may generate a one time increase in revenues).

In addition to the provisions affecting households as investors, the tax bill alters the tax treatment of some consumption items. The medical deduction is reduced from $150 to $100 for insurance payments, while the percent of income that must be reached before deductions can be made is increased from 3 percent to 7 percent. Casualty deductions are increased to 10% of taxable income, effectively nullifying the current well-to-do taxpayer ploy of using large deductibles on their insurance policies. Other tax changes are an increase in the telephone excise tax from 1% currently to 2% in January 1983 and 3% in January 1984. Cigarette taxes will be increased from 8¢ to 16¢ in 1983 and 1984 before reverting to 8¢ in subsequent years. The excise tax on airlines is increased on September 1 from 5% to 8%.

One other tax consequence is the change in unemployment compensation taxes. Higher compliance is required by states than in the past. In addition, the federal tax is increased from 0.7% on the first $6000 to 0.8% on the first $7000 of wages.

Finally, the bill also alters the growth of several expenditures items. Medicare is reduced relative to service levels by a total of $17.5 billion over three years while AFDC is reduced by $1.4 billion over three years.

The significance of all these changes is to slow the rate of descent of effective corporate tax rates, to provide a one time increase in personal tax rates to capture the medical and casualty changes as well as the timing of withholding on portfolio income, and to significantly increase excise taxes.

8/3/82

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	91507	90996	108.0	108.0	100172	100172	8.3	8.3	143.2	143.2
December	91110	90642	106.5	106.9	99613	99613	8.8	8.8	143.3	143.5
January 1982	90906	90460	104.3	104.3	99581	99581	8.5	8.5	144.9	144.9
February	90889	90459	106.2	106.2	99590	99590	8.8	8.8	145.8	145.0
March	90866	90304	105.6	105.6	99492	99492	9.0	9.0	146.6	145.4
April	90685	90083	105.0	105.2	99340	99340	9.4	9.4	147.3	146.3
May	90546	90151	105.0	105.6	99305	100117	9.5	9.5	147.7	147.6
June	90491	90010	105.1	105.0	99320	99764	9.7	9.5	148.2	147.9
July	90762	89976	105.4	105.1	99503	99721	9.7	9.7	149.3	148.7
August	90979	90116	105.7	105.4	99738	99878	9.5	9.8	150.2	149.5
September	91195	90327	105.9	105.8	99973	100122	9.4	9.8	151.2	150.3
October	91306	90505	106.2	106.1	100143	100346	9.3	9.7	152.0	151.1
November	91493	90684	106.4	106.5	100279	100513	9.2	9.7	152.8	152.0
December	91685	90852	106.7	106.8	100413	100743	9.2	9.6	153.6	152.8
January 1983	91874	91043	107.0	107.0	100682	100935	9.2	9.6	154.7	153.7
February	92016	91173	107.2	107.2	100893	101121	9.1	9.5	155.8	154.7
March	92170	91322	107.5	107.5	101095	101284	9.2	9.4	156.8	155.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	2.488		1.526		126.3		2.088		1.962	
December	2.492		1.525		115.5		2.092		1.977	
January 1982	2.498		1.531		109.8		2.103		1.993	
February	2.513	2.514	1.543	1.547	109.8	130.6	2.115	2.118	2.005	1.987
March	2.526	2.519	1.541	1.543	114.6	144.3	2.126	2.124	2.011	1.981
April	2.539	2.534	1.540	1.547	120.8	152.5	2.137	2.147	2.016	1.994
May	2.554	2.553	1.552	1.560	119.3	128.8	2.148	2.152	2.029	2.023
June	2.570	2.561	1.566	1.562	119.1	144.7	2.160	2.157	2.041	2.013
July	2.599	2.588	1.577	1.572	154.8	178.2	2.213	2.213	2.058	2.035
August	2.620	2.608	1.589	1.585	147.6	175.2	2.227	2.230	2.079	2.055
September	2.645	2.629	1.601	1.600	144.4	172.5	2.245	2.247	2.101	2.075
October	2.665	2.652	1.617	1.617	142.7	173.5	2.261	2.266	2.118	2.093
November	2.686	2.673	1.630	1.633	147.7	175.8	2.279	2.283	2.131	2.017
December	2.709	2.692	1.644	1.646	156.8	173.4	2.299	2.298	2.142	2.125
January 1983	2.720	2.705	1.658	1.659	141.4	164.8	2.305	2.306	2.164	2.141
February	2.743	2.725	1.673	1.673	140.0	164.0	2.322	2.321	2.182	2.157
March	2.771	2.744	1.688	1.687	142.8	161.3	2.344	2.335	2.201	2.174

Fore. = May Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November1981	1909.7		226.4		761.4		921.8		958.2	
December	1923.6		226.2		766.2		931.2		961.3	
January 1982	1940.7	1907.5	237.6	234.8	759.7	746.0	943.4	926.7	961.8	943.4
February	1952.6	1928.3	237.0	240.1	769.1	755.9	946.5	932.3	969.1	954.1
March	1958.8	1922.4	235.8	238.8	769.5	745.4	953.5	938.2	969.9	950.1
April	1963.6	1935.0	231.5	238.8	770.3	747.0	961.8	949.2	966.5	953.2
May	1976.0	1963.9	235.2	251.0	771.2	760.4	969.6	952.4	966.8	963.2
June	1988.1	1953.4	235.9	238.0	773.6	762.2	978.6	953.2	966.8	949.5
July	2005.2	1975.3	240.0	244.4	779.4	770.4	985.8	960.5	969.4	953.8
August	2026.1	1995.2	244.2	248.1	786.2	777.7	995.7	969.4	974.6	957.7
September	2047.0	2014.8	248.1	252.1	793.2	786.5	1005.7	976.2	979.9	962.2
October	2064.3	2032.6	250.6	254.7	798.9	792.8	1014.8	985.1	981.3	965.7
November	2076.8	2047.0	252.2	256.5	803.0	797.1	1021.6	993.4	982.0	966.5
December	2087.5	2064.1	252.0	260.0	807.5	801.9	1028.0	1002.2	981.6	969.4
January 1983	2108.8	2080.6	256.8	260.1	812.4	809.1	1039.6	1011.4	986.4	971.1
February	2126.9	2096.3	260.5	262.6	817.6	813.6	1048.8	1020.1	989.2	972.9
March	2145.6	2112.8	264.5	264.6	823.1	819.7	1058.0	1028.5	992.3	975.0

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	87.23	86.73	11.39	11.84	7.3	7.6	60.73	60.30	15.11	14.60
December	87.54	86.57	11.60	11.71	7.3	7.2	60.93	60.37	15.01	14.50
January 1982	85.32	85.32	11.64	11.64	8.2	8.2	60.00	60.00	13.68	13.68
February	87.65	87.65	11.92	11.92	8.5	8.5	60.84	60.84	14.89	14.89
March	87.13	87.28	11.77	11.78	7.8	7.8	60.16	60.32	15.20	15.18
April	87.00	88.29	11.72	11.91	7.2	7.2	60.22	60.31	15.06	16.07
May	87.50	90.68	11.92	12.14	7.7	8.2	60.29	61.42	15.29	17.12
June	87.77	89.30	11.92	12.09	7.8	7.2	60.48	61.26	15.37	15.94
July	88.69	90.73	12.03	12.36	8.0	7.6	60.93	61.95	15.73	16.42
August	89.72	91.73	11.93	12.39	8.3	8.0	61.47	62.51	16.32	16.83
September	90.71	92.90	11.99	12.52	8.5	8.3	62.01	63.21	16.71	17.17
October	91.63	93.72	11.97	12.65	8.6	8.6	62.64	63.72	17.02	17.35
November	92.25	94.28	12.12	12.73	8.5	8.7	63.08	64.07	17.05	17.48
December	92.72	95.07	12.10	12.86	8.6	9.0	63.46	64.45	17.16	17.16
January 1983	93.54	95.66	12.28	12.98	8.8	9.0	63.83	65.03	17.43	17.65
February	94.33	96.32	12.42	13.04	9.1	9.1	64.20	65.39	17.71	17.89
March	95.22	97.04	12.45	13.11	9.3	9.2	64.63	65.88	18.14	18.05

Fore. = May Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	0.894	0.860	0.560	0.554	0.723	0.743	232.2	230.0	149.5	148.7
December	0.913	0.882	0.593	0.550	0.789	0.797	235.9	228.8	152.2	146.6
January 1982	0.879	0.885	0.587	0.592	0.799	0.803	232.7	225.1	149.2	143.8
February	0.941	0.945	0.561	0.568	0.787	0.792	233.0	222.6	149.0	142.7
March	0.936	0.931	0.610	0.621	0.846	0.851	234.1	224.6	149.4	143.7
April	0.910	0.882	0.552	0.566	0.871	0.879	233.8	226.2	148.3	142.9
May	0.896	1.075	0.535	0.631	0.846	0.944	234.4	229.2	147.9	145.5
June	0.921	0.911	0.554	0.607	0.855	0.948	236.0	232.6	148.1	147.0
July	1.005	0.957	0.593	0.612	0.896	0.872	236.4	233.9	147.7	147.1
August	1.049	1.001	0.660	0.639	0.943	0.896	237.5	237.2	147.6	148.3
September	1.137	1.067	0.727	0.685	0.992	0.928	241.2	235.4	149.2	146.3
October	1.215	1.079	0.748	0.677	1.014	0.943	246.6	240.3	151.8	148.8
November	1.178	1.164	0.786	0.728	1.062	1.026	252.9	244.5	154.8	150.6
December	1.324	1.257	0.826	0.772	1.127	1.114	259.7	250.2	158.0	153.2
January 1983	1.310	1.273	0.838	0.807	1.156	1.129	262.0	254.9	158.7	155.3
February	1.315	1.332	0.852	0.853	1.173	1.208	264.4	260.1	159.4	157.7
March	1.318	1.312	0.845	0.871	1.165	1.164	266.9	264.8	160.0	159.7

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	101.9	101.9	52.2	51.9	78.1	76.2
December	103.0	100.8	53.1	52.2	79.8	75.8
January 1982	102.8	101.8	51.6	49.6	78.3	73.7
February	105.2	103.8	51.6	49.6	76.2	69.2
March	104.0	103.6	53.3	51.0	76.8	70.0
April	104.2	102.9	51.7	50.2	77.9	72.5
May	103.5	105.0	52.2	49.2	78.7	75.0
June	102.9	105.6	52.7	49.7	80.4	77.3
July	103.4	106.3	53.0	50.5	80.0	77.1
August	104.0	106.8	53.3	50.3	80.2	80.1
September	104.8	107.1	52.8	50.7	83.6	77.6
October	105.0	106.8	53.2	51.2	88.4	82.3
November	105.2	107.3	53.8	51.4	93.9	85.8
December	105.4	107.9	54.5	52.0	99.8	90.3
January 1983	105.9	108.5	54.2	51.6	101.9	94.8
February	106.8	108.9	54.5	52.2	103.1	99.0
March	107.7	109.6	54.8	52.7	104.4	102.5

Fore. = May Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	279.5	279.5	79.96	79.96	23.81	23.81	24.43	24.43
December	276.4	276.4	80.18	79.76	22.81	22.52	24.46	24.75
January 1982	275.7	275.2	77.27	77.27	21.74	21.74	22.48	22.48
February	276.2	276.2	79.22	79.22	20.46	20.46	23.22	23.22
March	275.3	274.9	80.00	80.50	22.07	22.07	23.14	23.14
April	274.8	274.2	78.43	76.89	21.62	22.61	22.75	22.60
May	274.4	271.5	79.26	76.14	21.55	20.33	22.67	23.47
June	274.0	271.3	80.25	74.92	22.48	19.21	22.98	23.07
July	274.2	271.0	81.79	77.14	22.96	19.83	23.05	22.68
August	274.7	270.4	83.26	79.92	23.07	21.06	22.97	22.54
September	275.4	270.7	83.45	81.43	23.15	21.89	23.02	22.39
October	276.0	271.3	84.42	82.09	23.48	22.54	23.25	22.42
November	276.5	273.1	87.29	83.63	24.12	22.96	23.40	22.67
December	277.1	274.7	87.62	81.94	24.29	22.45	23.56	23.01
January 1983	278.7	275.5	88.95	83.55	24.56	23.02	23.78	22.94
February	280.2	276.8	90.76	84.63	25.01	23.46	23.93	23.05
March	281.8	277.5	92.85	85.92	25.46	23.69	24.14	23.24

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	515.1	513.4	4.50	4.50	146.4	146.3	74.8	74.8
December	513.3	513.3	4.57	4.63	143.3	143.4	72.9	73.1
January 1982	510.9	510.5	4.16	4.16	140.7	140.7	71.1	71.1
February	509.6	508.3	4.62	4.62	142.5	142.9	72.0	72.2
March	507.1	507.6	4.90	4.90	141.5	141.7	71.5	71.7
April	505.3	510.1	4.65	4.27	140.5	140.2	71.0	70.8
May	503.6	505.7	5.07	4.67	140.0	139.4	70.7	70.4
June	502.5	503.7	5.11	4.86	142.5	138.4	71.6	69.8
July	503.9	502.4	5.20	4.95	144.0	138.5	72.4	69.7
August	504.7	502.1	5.28	5.11	145.4	138.9	73.1	69.9
September	505.6	503.2	5.37	5.39	146.8	139.4	73.8	70.2
October	507.5	504.3	5.49	5.27	147.3	140.0	74.2	70.7
November	509.4	507.6	5.73	5.28	147.6	140.7	74.4	71.2
December	511.4	509.8	5.96	5.43	148.0	141.3	74.6	71.7
January 1983	514.8	511.1	5.90	5.59	149.9	142.0	75.7	72.3
February	518.4	514.4	5.92	5.70	151.8	142.5	76.4	72.7
March	522.0	518.1	5.96	5.82	153.0	143.1	77.0	73.2

Fore. = May Forecast
C.E. = Current Expectations

PRICES

	CPI (seasonally adjusted)		PFI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	280.7	281.5	274.5	275.5	309.1	309.3	130	130	1.9973	2.0146
December	281.5	282.6	275.3	276.3	310.1	310.0	128	128	2.0042	2.0260
January 1982	283.4	283.4	277.3	277.3	311.7	311.7	130	130	2.0178	2.0355
February	284.1	284.1	276.9	276.9	311.4	311.6	133	133	2.0173	2.0361
March	283.3	283.3	276.5	276.5	311.0	311.0	133	133	2.0201	2.0390
April	284.0	284.0	276.7	276.8	310.5	309.9	135	135	2.0326	2.0510
May	285.4	286.8	278.5	276.8	311.7	309.6	137	138	2.0455	2.0604
June	286.8	289.7	279.0	279.6	312.9	310.7	138	137	2.0599	2.0792
July	288.3	290.8	280.6	281.0	314.3	312.6	140	135	2.0707	2.0929
August	289.7	291.7	282.1	282.1	315.8	313.8	141	134	2.0805	2.1051
September	291.1	291.8	284.0	283.5	317.3	315.1	142	136	2.0903	2.1171
October	292.8	294.0	286.1	285.0	319.6	316.6	144	138	2.1130	2.1296
November	294.4	294.8	287.9	286.1	320.8	317.9	145	141	2.1210	2.1420
December	296.0	296.1	289.8	287.5	322.1	318.9	147	143	2.1301	2.1527
January 1983	297.3	297.6	291.3	289.0	323.8	320.1	145	145	2.1429	2.1651
February	298.7	299.0	293.4	290.7	325.5	321.4	150	146	2.1573	2.1764
March	300.1	300.5	295.4	292.1	327.2	323.0	150	149	2.1714	2.1880

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	199.3		170.3		206.1		202.2		155.3	154.7
December	200.1		170.3		206.4		203.7		155.0	156.1
January 1982	201.8	202.2	172.5	173.3	207.9	207.4	205.7	206.7	156.0	156.5
February	201.5	202.1	171.1	172.7	207.0	206.8	206.2	207.4	156.4	156.0
March	202.0	202.3	172.1	173.0	206.7	206.2	207.0	208.1	156.7	156.3
April	203.2	203.0	173.0	173.4	207.4	205.9	208.5	209.6	157.7	158.3
May	204.4	203.9	173.7	174.8	208.5	206.7	210.1	210.9	158.5	157.5
June	205.6	205.7	174.4	175.8	209.6	208.5	211.6	212.5	159.4	158.2
July	206.8	207.1	175.6	177.0	210.8	210.1	212.9	213.9	160.1	159.0
August	207.9	208.3	176.5	177.8	211.8	211.4	214.1	215.3	160.9	160.0
September	208.9	209.4	177.4	178.5	212.7	212.3	215.3	216.7	161.7	160.9
October	210.4	210.5	178.3	178.5	214.1	213.6	217.0	218.0	162.5	161.5
November	211.5	211.8	179.1	179.2	215.3	215.0	218.2	219.4	163.4	162.3
December	212.7	212.9	179.9	179.9	216.5	216.4	219.4	220.6	164.4	163.3
January 1983	213.8	214.3	181.7	180.8	217.4	217.7	220.9	222.0	165.1	164.1
February	215.0	215.5	181.5	181.5	218.3	219.1	222.6	223.3	165.9	164.9
March	216.2	216.7	181.5	182.3	219.2	220.4	224.2	224.6	166.8	165.8

Fore. = May Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	-3404	-3356	128.2	128.2	2989	3000	1497	1489	22.0	18.1
December	-695	-861	127.8	127.8	2985	3004	1489	1483	25.3	21.2
January 1982	-4092	-4092	125.3	127.8	2987	2988	1480	1468	13.9	8.6
February	-387	-387	124.8	124.8	3006	3000	1490	1473	10.2	3.1
March	-1747	-1747	124.2	125.0	2993	2999	1482	1471	6.2	1.5
April	-427	456	123.7	126.8	3012	3029	1482	1477	3.5	1.5
May	-2155	-2340	124.5	127.9	3042	3052	1487	1481	4.0	7.9
June	-2505	-2488	125.5	127.9	3047	3060	1479	1472	5.4	10.4
July	-1825	-1672	126.8	128.0	3086	3085	1490	1474	10.7	12.5
August	-2962	-2163	128.0	128.5	3125	3117	1502	1481	14.8	10.3
September	-2554	-2542	130.2	129.6	3164	3151	1513	1488	18.9	11.7
October	-2163	-2035	130.0	130.5	3193	3174	1511	1490	20.5	13.5
November	-2865	-2467	130.5	131.1	3215	3216	1516	1501	22.3	13.9
December	-3540	-2531	131.3	130.7	3244	3232	1523	1502	24.0	11.1
January 1983	-2963	-2685	131.9	131.5	3289	3249	1535	1501	20.6	10.8
February	-2987	-2853	132.6	131.9	3325	3283	1541	1508	19.5	10.9
March	-3011	-3065	133.1	131.8	3363	3313	1549	1514	19.6	13.7

Fore. = May Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1981	168.4	168.4	436.4	436.4	1809.7	1809.9	13.31	13.31	11.30	11.30
December	169.9	169.9	440.9	440.9	1822.4	1822.7	12.37	12.37	11.52	11.52
January 1982	171.6	171.6	448.6	448.6	1840.9	1841.3	13.22	13.22	12.83	12.83
February	172.9	173.2	447.3	447.3	1847.5	1848.0	14.78	14.78	13.61	13.61
March	173.3	173.7	448.0	448.3	1864.5	1865.2	14.68	14.68	12.77	12.77
April	174.5	175.1	453.9	452.4	1880.3	1880.7	14.31	14.94	12.21	12.80
May	175.5	176.5	454.9	451.5	1892.5	1897.5	14.04	14.45	11.96	12.16
June	176.4	178.3	455.8	450.9	1905.1	1906.9	15.21	14.15	13.04	12.31
July	177.0	178.3	457.3	451.2	1914.6	1910.4	15.60	13.27	13.28	12.21
August	177.7	179.1	458.3	454.4	1924.2	1929.6	15.73	11.75	13.63	11.26
September	178.5	179.5	459.2	457.7	1938.7	1944.3	15.65	11.28	13.46	10.79
October	179.4	180.3	461.8	461.0	1948.9	1962.2	14.29	11.05	12.29	10.56
November	180.3	180.9	464.0	463.1	1965.1	1977.0	13.72	11.49	11.93	10.98
December	181.2	181.5	466.4	464.6	1982.2	1989.5	13.64	11.23	11.72	10.66
January 1983	182.3	182.2	467.5	466.4	1996.3	2003.3	13.69	11.02	11.65	10.55
February	183.3	183.0	470.4	468.8	2007.5	2017.8	13.58	10.83	11.71	10.14
March	184.2	183.6	473.5	470.4	2019.9	2030.2	13.74	10.65	11.83	10.02

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November1981	14.22	14.22	11.89	11.89	12.16	12.16	12.48	12.48	16.84	16.84
December	14.23	14.23	12.91	12.91	12.12	12.12	12.49	12.49	15.75	15.75
January 1982	15.18	15.18	13.28	13.28	13.09	13.09	13.51	13.51	15.75	15.75
February	15.27	15.27	12.97	12.97	14.53	14.53	15.00	15.00	16.56	16.56
March	14.58	14.58	12.82	12.82	13.80	13.80	14.21	14.21	16.50	16.50
April	14.35	14.46	12.46	12.59	13.75	14.06	14.16	14.44	16.50	16.50
May	14.26	14.26	12.12	11.95	13.86	13.42	14.22	13.80	16.50	16.50
June	14.48	14.81	12.38	12.45	14.82	13.96	15.09	14.46	16.50	16.50
July	14.73	14.67	12.79	12.37	15.03	13.21	15.43	13.79	17.12	16.26
August	14.99	14.21	13.12	12.16	15.35	11.79	15.76	12.07	17.21	15.43
September	14.95	13.92	13.04	11.94	15.49	11.19	15.89	11.48	17.35	14.82
October	14.62	13.95	12.60	11.90	14.43	11.06	15.02	11.42	16.65	14.50
November	13.78	14.16	11.59	12.21	13.95	11.42	14.51	11.87	15.98	14.50
December	13.56	14.09	11.32	12.17	13.86	11.25	14.32	11.58	15.65	14.50
January 1983	13.69	13.96	11.57	12.03	13.75	11.15	14.17	11.43	15.50	14.50
February	13.82	13.67	11.72	11.68	13.49	10.93	13.89	11.36	15.50	14.22
March	13.77	13.56	11.68	11.53	13.76	10.75	14.05	11.16	15.50	14.00

Fore. = May Forecast
C.E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS FOR JULY

FINANCIAL MARKETS IGNORE RETURN OF RECESSION IN AUGUST

The on-again, off-again economic recovery clearly turned off in August. Payroll employment plunged by 211,000 jobs in August following a downward revision by 181,000 in July that eliminated preliminary gains recorded for that month. (Most of the downward revision, however, was in state and local government payrolls. Therefore, the impact upon industrial activity from that revision should be slight.) As the manufacturing workweek also receded by 0.3 hours and the Index of Hours Worked fell by 0.5% in August, economic activity clearly dropped substantially during the month. Industrial production almost certainly will be down by nearly 1%, while any growth in personal income will be limited to gains in government payrolls, interest income, and transfer payments - a gain of no more than $8 billion. Retail sales apparently are making no gains after seasonal adjustment, but normal growth in service components will lead to a slight decline in personal savings during the month. Those commentators who claim that the leading indicators must be up in August as a result of a dramatic rally in the stock market may prove to be incorrect. Initial unemployment claims may total 600,000 during the month. Combined with the decline in manufacturing hours, these two components of the leading indicators will remove more than a percentage point from the index. This virtually offsets the percentage point gain that will be contributed by rising stock prices. Significant growth in the money supply and in liquid assets may tilt the index to its fifth consecutive monthly gain, but the magnitude of expansion certainly will be far less than most commentators have acknowledged.

The failure of the recession to end in August explains some of the favorable performance in credit markets, but provides little insight into forces causing the dramatic stock market rally. While pronouncements by Wojnilower and Kaufman may lead to market reassessments, the fundamentals must be in place for relatively efficient markets to continue a more than temporary response to such statements. Indeed, the Kaufman claim that long-term treasury bonds will fall to less than 10% within twelve months does not conform with our current analysis, just as his previous pronouncement that record rates would be forthcoming had no foundations in terms of expected savings and investment activity. Long-term interest rates should not plunge dramatically merely because an economic recovery is weaker and later than previously anticipated. Changes in business cycle magnitudes influence short-term rates while underlying savings and investment forces are responsible for adjustments in long-term rates.

Nevertheless, a risk premium that compensated for possibilities that interest rates might rise further was eliminated during the month. This explains most of the 1.5 percentage point downward move in long-term interest rates. The more dramatic downward movement in short-term interest rates appears to have been generated by a combination of increasing injections of reserves by the Federal Reserve and the economy induced weakening in the demand for money. Of course, the substantial decline in short-term interest rates lowered the dealer cost of holding long-term bond issues. Thus, a small portion of the reduction in long-term interest rates was generated by sharply declining short-term rates.

More interesting is the fact that equity values rallied much more strongly than bond values even though Dr. Kaufman maintained that a weak economy would be the primary factor leading to lower interest rates. If Kaufman's analysis was correct, the bond market would lead the rally with only a minor support role for equity values. In fact, however, the stock market previously had ignored a declining trend in long-term interest rates that emerged about the first of July. By the middle of August, when the stock market rally began, Wall Street was becoming more concerned with its own liquidity problems than with an appropriate evaluation of equity capital in the United States. As a result, the market had significantly undervalued even near term projections of corporate earnings. Moreover, the corporate liquidity squeeze was becoming less intense. That is why we concluded that a significant stock market advance was possible by late summer in our last Projections.

Although the economic recovery has not yet begun, it is nearing. Consumers are expected to gradually increase their purchases during the important Christmas season. The impetus for these gains will be a combination of wage inflation lagging behind the downward movement of commodity inflation, the gradual improvement in household liquidity generated by a change in withholding provisions, and the response to anticipated tax reductions for 1983. Also, inventory liquidations should end sometime during the fourth quarter. Even the automobile sector is expected to get production in balance with sales sometime during that period. Coupled with continuing gains in defense activity, the growth in consumer spending, the end to inventory liquidations, and a gradual improvement in housing activity as a result of modestly declining interest rates should create economic recovery in the fourth quarter.

On the other hand, the summer combination of weak growth in deposits and strong Federal Reserve injections of reserves will not reappear. Moreover, the anticipatory nature of cosumer activity will lead to reductions in household contributions to credit markets. As a result, a modest upward trend in interest rates is likely in the fourth quarter, before significant corporate reliquification again establishes a modest downward trend in interest rates during the first half of 1983. Also, our stock market analysis would suggest that the recent 19% improvement in equity values is greater than necessary to eliminate the gap that had developed between economic reality and Wall Street pessimism earlier in the summer. While economic reality would favor further advances in equity values, those advances should not be dramatic from current levels until the spring of 1983. For that reason, fourth quarter equity values may not be higher than September averages.

Quarterly Profile of GNP

	1982-I	1982-II	1982-III	1982-IV	1983-I	1983-II
Real	-5.1	1.3	-1.1	5.8	6.1	2.9
Price	4.3	4.9	6.9	6.5	6.3	6.6
Nominal	-1.0	6.2	5.8	12.6	12.7	9.7

Monthly Statistical Highlights for August 1982

Personal income, +0.3%; savings rate, 7.6%; personal consumption, +0.7%; retail sales, +0.9%; housing starts, -14.5%; housing permits, -4.5%; construction expenditures, +1.0%; business inventories, -0.1%; orders for durable goods, +3.5%; orders for nondefense capital goods, +4.1%; industrial production, -0.7%; CPI, +0.5%; consumption deflator, +0.7%; leading indicators, +0.4%; M1, +10.3%; M2, +17.1%.

Monthly Statistical Highlights for September 1982

Payroll employment, +32,000; Index of Hours Worked, +0.1%; houshold employment, -246,000; unemployment rate, 9.9%; personal income, +0.7%; savings rate, 7.2%; personal consumtpion, +1.1%; retail sales, +1.4%; auto sales 8.0 million units; housing starts, -0.4%; housing permits, -7.3%; construction expenditures, +0.7%; business inventories, -0.3%; orders for durable goods, +3.8%; orders for nondefense capital goods, +3.7%; industrial production, +0.1%; CPI, +0.3%; PPI, +0.4%; consumption deflator, +0.5%; leading indicators, -0.1%; M1, +7.1%; M2, +9.6%.

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EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	90460	90460	104.3	104.3	99581	99581	8.5	8.5	144.9	144.9
February	90459	90459	106.2	106.2	99590	99590	8.8	8.8	145.0	145.0
March	90304	90304	105.6	105.6	99492	99492	9.0	9.0	145.4	145.4
April	90083	90083	105.2	105.2	99340	99340	9.4	9.4	146.3	146.3
May	90151	90166	105.6	105.7	100117	100117	9.5	9.5	147.6	147.7
June	90010	89839	105.0	104.9	99764	99764	9.5	9.5	147.9	148.1
July	89923	89662	104.9	105.0	99808	99732	9.8	9.8	148.7	148.8
August	89863	89451	104.9	104.5	99833	99839	9.9	9.8	149.6	149.7
September	89953	89483	105.0	104.6	100008	99593	9.8	9.9	150.5	150.5
October	90126	89565	105.3	104.8	100118	99690	9.8	9.9	151.2	151.3
November	90325	89717	105.5	105.1	100221	99887	9.8	9.8	152.0	152.2
December	90497	89903	105.8	105.4	100357	100138	9.7	9.7	152.7	152.9
January 1983	90569	90142	106.0	105.7	100569	100382	9.7	9.7	153.8	153.7
February	90726	90303	106.2	105.9	100748	100573	9.6	9.7	154.9	154.7
March	90919	90565	106.3	106.1	100963	100930	9.5	9.5	156.0	155.8
April	91168	90806	106.6	106.4	101128	101156	9.5	9.5	156.6	156.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	2.499	2.499	1.535	1.535	142.4	142.4	2.109	2.109	1.966	1.966
February	2.514	2.514	1.547	1.547	130.6	130.6	2.118	2.118	1.987	1.987
March	2.519	2.519	1.543	1.543	144.3	143.3	2.124	2.124	1.981	1.981
April	2.534	2.536	1.547	1.547	152.5	153.6	2.147	2.148	1.994	1.995
May	2.553	2.557	1.560	1.560	128.8	138.9	2.152	2.156	2.023	2.017
June	2.561	2.567	1.562	1.563	144.7	155.7	2.157	2.160	2.013	2.004
July	2.589	2.592	1.567	1.570	177.3	179.5	2.214	2.205	2.037	2.025
August	2.603	2.601	1.574	1.572	165.6	167.9	2.223	2.209	2.058	2.041
September	2.622	2.618	1.584	1.582	158.7	160.5	2.238	2.223	2.079	2.063
October	2.647	2.640	1.602	1.597	163.6	158.0	2.258	2.240	2.094	2.082
November	2.668	2.662	1.615	1.611	169.7	154.9	2.275	2.258	2.105	2.103
December	2.688	2.681	1.628	1.623	171.0	150.4	2.291	2.272	2.120	2.122
January 1983	2.704	2.697	1.640	1.636	158.6	143.3	2.297	2.282	2.139	2.139
February	2.727	2.718	1.657	1.650	156.2	145.3	2.313	2.299	2.157	2.154
March	2.744	2.740	1.669	1.665	148.4	148.8	2.325	2.317	2.175	2.168
April	2.756	2.760	1.679	1.677	140.3	148.8	2.333	2.333	2.193	2.184

Fore. = August Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	1907.5	1907.5	234.8	234.8	746.0	746.0	926.7	926.7	943.4	943.4
February	1928.3	1928.3	240.1	240.1	755.9	755.9	932.3	932.3	954.1	954.1
March	1922.4	1922.4	238.8	238.8	745.4	745.4	938.2	938.2	950.1	950.1
April	1935.0	1935.4	238.8	238.8	747.0	747.0	949.2	949.7	953.2	953.4
May	1963.9	1957.5	251.0	250.4	760.4	759.2	952.4	947.9	963.2	961.5
June	1953.4	1944.5	238.0	231.4	762.2	758.9	953.2	954.1	952.4	946.5
July	1977.3	1965.0	245.5	239.3	769.3	761.5	962.5	964.2	957.8	953.6
August	1997.8	1980.8	247.2	242.0	776.4	766.3	974.2	972.5	960.7	954.1
September	2019.2	2001.9	253.1	247.2	780.5	774.1	985.6	980.6	965.4	959.9
October	2033.8	2021.1	256.0	249.3	784.2	782.1	993.6	989.7	967.1	964.1
November	2045.0	2041.9	256.5	258.5	788.6	786.1	999.9	997.3	966.7	969.0
December	2059.5	2060.1	256.7	262.2	796.6	792.7	1006.2	1005.2	967.9	972.8
January 1983	2078.4	2076.8	260.2	263.8	801.1	799.4	1017.1	1013.6	970.7	972.9
February	2095.7	2090.5	264.1	264.3	805.3	804.8	1026.3	1021.4	973.1	977.0
March	2113.3	2104.3	266.2	266.5	811.0	809.3	1036.1	1028.5	975.6	978.6
April	2130.9	2119.9	268.8	268.0	817.6	815.1	1044.5	1036.8	978.4	980.5

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	85.32	85.32	11.64	11.64	8.2	8.2	60.00	60.00	13.68	13.68
February	87.65	87.65	11.92	11.92	8.5	8.6	60.84	60.84	14.89	14.89
March	87.28	87.28	11.78	11.78	7.8	7.9	60.32	60.32	15.18	15.18
April	88.29	88.29	11.91	11.91	7.2	7.2	60.31	60.31	16.07	16.07
May	90.68	90.84	12.14	12.15	8.2	8.2	61.42	61.43	17.12	17.27
June	89.29	87.89	12.09	11.79	6.8	6.8	61.26	60.80	15.94	15.30
July	90.94	88.72	12.12	11.89	7.6	7.4	62.03	61.20	16.79	15.63
August	91.71	89.73	12.20	12.00	8.0	7.6	62.60	61.59	16.91	16.14
September	92.74	91.00	12.21	12.07	8.3	8.0	62.93	62.29	17.60	16.64
October	93.38	91.85	12.28	12.15	8.4	8.1	63.23	62.94	17.87	16.76
November	93.79	93.21	12.36	12.23	8.6	8.5	63.58	63.26	17.85	17.72
December	94.46	94.53	12.37	12.35	8.7	8.7	64.23	64.11	17.86	18.07
January 1983	95.23	94.90	12.46	12.46	8.8	8.7	64.59	64.33	18.18	18.11
February	96.03	95.40	12.55	12.43	8.9	8.8	64.93	64.77	18.55	18.20
March	96.74	96.01	12.63	12.50	9.0	8.9	65.39	65.12	18.72	18.39
April	97.58	96.65	12.70	12.59	9.2	9.0	65.92	65.59	18.96	18.47

Fore. = August Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	0.885	0.885	0.592	0.592	0.803	0.803	225.1	225.1	143.8	143.8
February	0.945	0.945	0.568	0.568	0.792	0.792	222.6	222.6	142.7	142.7
March	0.931	0.931	0.621	0.621	0.851	0.851	224.6	224.6	143.7	143.7
April	0.882	0.882	0.566	0.566	0.879	0.879	226.2	226.2	142.9	142.9
May	1.075	1.066	0.631	0.631	0.944	0.944	229.2	227.7	145.5	144.5
June	0.911	0.906	0.607	0.616	0.948	0.929	232.6	230.2	147.0	146.0
July	1.130	1.211	0.615	0.614	1.063	1.103	232.4	228.5	146.3	144.3
August	0.986	1.035	0.668	0.629	0.896	1.053	232.4	231.9	145.6	145.7
September	0.908	0.994	0.652	0.627	0.852	0.976	231.4	233.6	144.4	146.1
October	1.073	1.083	0.711	0.672	0.937	0.992	234.9	235.1	146.2	146.4
November	1.120	1.125	0.730	0.706	1.004	1.036	238.5	233.8	147.9	145.0
December	1.182	1.189	0.758	0.747	1.063	1.075	242.0	238.2	149.4	147.0
January 1983	1.155	1.223	0.743	0.740	1.045	1.082	243.7	242.5	149.9	149.0
February	1.175	1.242	0.765	0.739	1.053	1.121	245.5	246.1	150.2	150.6
March	1.189	1.285	0.778	0.809	1.067	1.143	246.2	249.3	149.9	151.8
April	1.242	1.276	0.792	0.781	1.116	1.162	248.0	249.8	150.4	151.5

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	101.8	101.8	49.6	49.6	73.7	73.7
February	103.8	103.8	49.6	49.6	69.2	69.2
March	103.6	103.6	51.0	51.0	70.0	70.0
April	102.9	102.9	50.2	50.9	72.5	72.4
May	105.0	103.6	49.2	48.5	75.0	75.6
June	105.6	106.2	49.7	48.7	77.3	75.4
July	106.1	103.0	49.0	48.4	77.3	76.7
August	106.5	104.2	48.9	48.2	77.0	79.5
September	107.0	104.5	48.9	48.5	75.5	80.6
October	107.4	104.3	49.3	49.0	78.2	81.8
November	107.7	104.7	49.6	49.3	81.2	79.8
December	108.0	105.2	49.9	50.0	84.1	83.0
January 1983	108.4	105.5	50.3	49.7	85.0	87.3
February	108.7	106.0	50.9	50.5	85.9	89.6
March	108.9	106.0	50.6	50.9	86.7	92.4
April	109.3	106.3	51.0	51.4	87.7	92.1

Fore. = August Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	281.2	281.2	75.06	75.06	21.72	21.72	23.07	22.48
February	281.7	281.7	76.31	76.31	21.56	21.56	24.04	23.22
March	280.1	280.1	77.86	77.86	22.17	22.17	24.06	23.14
April	279.0	279.0	76.89	76.19	22.61	22.61	22.60	22.60
May	276.4	276.4	76.14	75.71	20.33	20.33	23.47	23.47
June	275.1	275.1	74.66	74.55	19.21	19.28	22.76	22.91
July	274.6	275.2	78.52	77.54	20.15	20.77	22.85	22.65
August	273.5	274.9	83.26	80.22	21.62	21.62	22.76	22.41
September	273.2	275.0	82.95	83.25	21.43	22.43	22.82	22.26
October	274.0	274.3	84.27	83.06	21.92	22.25	22.79	22.48
November	275.6	275.5	84.85	81.15	22.45	21.89	22.70	22.76
December	276.9	276.8	85.63	81.42	22.75	22.15	22.75	23.05
January 1983	278.0	277.6	85.98	82.63	22.96	22.53	22.83	23.21
February	279.3	278.7	86.21	83.99	22.68	22.69	22.91	23.02
March	280.6	280.0	86.43	84.15	23.07	23.02	23.00	22.92
April	282.0	281.4	87.25	84.68	23.31	23.01	23.09	23.15

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	515.8	516.5	4.00	4.00	140.7	140.7	71.1	71.1
February	516.3	513.8	4.37	4.37	142.9	142.9	72.2	72.2
March	514.7	512.8	4.49	4.49	141.7	141.7	71.7	71.7
April	516.2	514.9	4.27	4.27	140.2	140.2	70.8	70.8
May	511.5	510.4	4.67	4.67	139.4	139.2	70.4	70.3
June	508.6	512.0	4.86	4.82	138.4	138.2	69.8	69.7
July	509.3	513.6	4.82	4.77	138.2	138.1	69.5	69.4
August	507.9	512.9	4.88	4.75	138.2	137.3	69.4	68.9
September	507.6	511.6	5.01	4.93	139.1	137.5	70.0	69.1
October	510.2	510.8	5.16	5.04	140.3	137.8	70.9	69.3
November	512.9	511.9	5.24	5.21	141.5	138.8	71.5	69.9
December	514.6	513.1	5.31	5.30	143.0	139.7	72.6	70.4
January 1983	516.8	515.2	5.40	5.33	143.3	140.8	72.7	71.1
February	519.1	518.3	5.45	5.36	144.0	141.5	73.0	71.6
March	521.8	520.6	5.49	5.44	144.4	142.2	73.2	72.1
April	524.1	523.2	5.58	5.55	145.2	143.0	73.7	72.8

Fore. = August Forecast
C.E. = Current Expectations

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	283.4	283.4	277.3	277.8	311.7	311.8	2.0355	2.0355
February	284.1	284.1	276.9	277.3	311.6	311.6	2.0361	2.0361
March	283.3	283.3	276.5	276.5	311.0	311.0	2.0390	2.0390
April	284.0	284.0	276.7	276.7	309.9	309.9	2.0510	2.0508
May	286.7	286.7	276.8	276.8	309.6	309.5	2.0604	2.0576
June	289.7	289.7	279.7	279.7	310.7	310.2	2.0792	2.0758
July	290.9	291.4	281.4	281.1	312.6	312.9	2.0886	2.0834
August	292.9	292.9	283.6	282.2	313.4	313.2	2.0945	2.0980
September	294.0	293.8	284.9	283.4	314.2	314.0	2.1013	2.1077
October	295.5	293.9	286.5	285.0	316.9	316.3	2.1189	2.1186
November	297.6	295.2	288.7	286.3	318.7	318.0	2.1354	2.1302
December	299.7	296.4	290.9	287.6	320.5	319.6	2.1519	2.1402
January 1983	300.9	297.8	292.3	288.9	322.0	320.9	2.1623	2.1557
February	301.9	299.1	293.7	290.2	322.8	322.0	2.1725	2.1608
March	302.9	300.5	295.0	291.5	323.6	322.9	2.1828	2.1711
April	304.4	302.0	296.6	293.2	325.3	324.0	2.1954	2.1829

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	202.2	202.2	173.3	173.3	207.4	207.4	206.7	206.7	156.5	156.5
February	202.1	202.1	172.7	172.7	206.8	206.8	207.4	207.4	156.0	156.0
March	202.3	202.3	173.0	173.0	206.2	206.2	208.1	208.1	156.3	156.3
April	203.0	203.0	173.4	173.4	205.9	205.9	209.6	209.6	158.3	158.3
May	203.9	203.6	174.8	174.7	206.7	206.4	210.9	210.5	157.5	157.6
June	205.1	205.4	175.7	173.8	208.2	209.0	211.6	211.9	158.2	157.7
July	206.4	206.1	176.5	174.7	209.6	210.4	213.1	213.2	158.9	158.4
August	208.0	207.6	177.2	175.5	211.3	211.2	214.7	214.5	159.6	159.2
September	209.2	208.7	177.9	176.2	212.4	212.0	216.3	216.0	160.2	159.9
October	210.3	209.7	178.5	176.7	213.5	212.9	217.7	217.4	160.7	160.6
November	211.5	210.8	179.3	177.8	214.7	214.1	219.1	218.7	161.3	161.2
December	212.8	212.2	180.0	179.5	215.9	215.3	220.5	220.1	162.0	162.0
January 1983	214.1	213.5	180.8	180.4	217.2	216.5	222.1	221.6	162.6	162.7
February	215.4	214.6	181.7	181.2	218.4	217.6	223.6	223.0	163.4	163.4
March	216.6	215.9	182.6	182.0	219.6	218.8	225.0	224.5	164.2	164.2
April	217.8	217.1	183.3	182.8	220.6	220.1	226.5	225.9	164.9	164.9

Fore. = August Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	-4092	-4092	127.8	127.8	2988	2988	1468	1468	8.6	8.6
February	-387	-387	124.8	124.8	3000	3000	1473	1473	3.1	3.1
March	-1747	-1747	125.0	125.0	2999	2999	1471	1471	1.5	1.5
April	456	456	126.8	126.8	3029	3028	1477	1476	1.5	1.5
May	-2340	-2340	127.9	127.7	3052	3041	1481	1478	7.9	7.5
June	-2488	-2488	127.9	128.1	3060	3054	1472	1471	10.4	15.9
July	-1695	-1372	128.3	129.8	3094	3082	1481	1479	14.3	14.6
August	-2743	-1922	128.8	130.3	3090	3075	1475	1466	16.9	13.7
September	-2775	-2342	130.0	130.1	3125	3096	1487	1469	19.5	18.8
October	-2563	-2515	131.3	131.3	3184	3134	1503	1479	23.1	20.5
November	-3012	-2348	130.5	130.7	3205	3184	1501	1495	24.5	19.2
December	-3228	-2972	131.6	131.9	3217	3214	1495	1502	25.3	18.7
January 1983	-3363	-3132	132.3	132.7	3256	3248	1506	1507	21.3	17.6
February	-2742	-3320	132.0	133.5	3288	3275	1513	1516	15.4	16.1
March	-1934	-2916	132.9	134.1	3323	3299	1522	1520	14.6	13.8
April	-2025	-2725	133.9	134.6	3344	3323	1523	1522	12.7	12.5

Fore. = August Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	171.6	171.6	448.6	448.6	1841.3	1841.3	13.22	13.22	12.83	12.83
February	173.2	173.2	447.3	447.3	1848.0	1848.0	14.78	14.78	13.61	13.61
March	173.7	173.7	448.3	448.3	1865.2	1865.2	14.68	14.68	12.77	12.77
April	175.1	175.1	452.4	452.4	1880.7	1880.7	14.94	14.94	12.80	12.80
May	176.5	176.6	451.5	451.5	1897.5	1897.5	14.45	14.45	12.16	12.16
June	178.3	178.3	450.9	451.4	1906.9	1907.9	14.15	14.15	12.31	12.31
July	178.3	178.0	452.5	451.2	1917.6	1923.3	13.27	12.59	12.21	11.88
August	179.1	179.4	454.1	454.9	1928.5	1948.8	11.53	10.12	11.45	9.88
September	179.5	179.9	455.4	457.5	1938.2	1963.8	10.99	10.23	10.60	9.84
October	180.6	180.8	458.3	461.0	1957.9	1978.8	12.05	11.52	11.33	10.53
November	182.0	181.7	463.7	464.4	1980.3	1997.4	13.24	11.35	12.14	10.25
December	183.5	182.5	468.5	469.0	2001.4	2013.2	14.43	11.21	12.68	10.62
January 1983	184.3	183.3	470.4	470.2	2015.3	2024.4	13.82	12.13	12.43	11.14
February	185.1	184.3	471.7	472.4	2025.4	2037.9	12.84	12.34	11.52	11.10
March	185.9	185.1	473.1	472.0	2035.6	2048.5	11.93	12.26	11.26	10.76
April	187.3	186.0	475.9	476.5	2058.4	2068.0	11.75	12.52	10.88	11.05

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1982	15.18	15.18	13.28	13.28	13.09	13.09	13.51	13.51	15.75	15.75
February	15.27	15.27	12.97	12.97	14.53	14.53	15.00	15.00	16.56	16.56
March	14.58	14.58	12.82	12.82	13.80	13.80	14.21	14.21	16.50	16.50
April	14.46	14.46	12.59	12.59	14.06	14.06	14.44	14.44	16.50	16.50
May	14.26	14.26	11.95	11.95	13.42	13.42	13.80	13.80	16.50	16.50
June	14.81	14.81	12.45	12.45	13.96	13.96	14.46	14.46	16.50	16.50
July	14.67	14.61	12.28	12.28	13.21	12.94	13.79	13.44	16.26	16.26
August	14.45	13.71	12.02	10.89	11.73	10.15	12.31	10.61	15.43	14.39
September	14.29	13.26	11.79	10.43	11.05	10.65	11.54	11.02	14.06	13.50
October	14.63	13.15	12.19	10.24	12.02	11.04	12.48	11.43	15.05	13.50
November	14.79	13.09	12.42	10.15	12.93	11.26	13.47	11.69	15.99	13.96
December	14.86	13.11	12.48	10.12	14.36	11.31	14.79	11.86	17.08	14.25
January 1983	14.42	13.25	11.98	10.18	14.01	12.16	14.49	12.62	17.00	14.25
February	14.21	13.29	11.70	10.27	13.04	12.37	13.53	12.91	16.05	14.49
March	14.01	13.03	11.49	10.05	12.09	12.40	12.62	13.02	14.95	15.00
April	13.97	12.78	11.37	9.88	11.95	12.55	12.38	13.06	14.75	15.00

Fore. = August Forecast
C.E. = Current Expectations

GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS FOR AUGUST

FOREIGN CAPITAL FLOWS HELP DOMESTIC CREDIT MARKETS

Between May and August sensitive short-term interest rates fell almost 5 percentage points. Although rates have since stabilized, or actually increased modestly, long-term interest rates continue to decline sharply. This obvious shift in credit market sentiment has been explained in terms of the continuing weakness in the economy. As mentioned in our last report, monthly GNP appears to have declined in August, but the continuing decline in interest rates into September may no longer be reflecting economic weakness. Rather, the nationalization of Mexican banks raised the possibility that other financial relationships in other countries around the world may also become restricted. As a result, many foreign corporations moved assets into the United States. The magnitude of this capital flow is difficult to measure, but preliminary estimates suggest it could exceed more than $4 billion (or $20 billion at annual rates). Such a change in the flow of funds into the United States is the equivalent of a percentage point change in the personal savings rate. The vast majority of these foreign assets appears to have moved either into short-term government securities, long-term bonds, or the equity markets. In each case, prices have been stronger than otherwise would have developed. Because the foreign flows are not directly related to trade surpluses and interest rate differentials, the dollar has benefited more than would have developed in terms of economic conditions alone. In other words, the dollar is currently modestly overvalued. Also, if these funds are gradually withdrawn from the United States, price weakness might develop in those instruments that had been especially favored. As many of these funds are not anticipated to remain domiciled in the United States, it appears that interest rates during the fourth quarter will be somewhat higher than current rates. Moreover, equity values may decline modestly from September averages during the quarter.

Our current projections disagree with the flash estimates of GNP recently reported by the Department of Commerce. According to that reading, inflation adjusted GNP is expected to grow 1.5% during the summer. Of course, the amount of detail available to make that judgement is so incomplete that dramatic revisions remain possible. As July proved to be a relatively strong month with significant inventory accumulations in the automobile and truck industry, the flash figures may be overstating the degree of inventory investment during the quarter. Also, trade figures are not yet available beyond July, while estimates of factor incomes earned abroad must remain highly speculative at this time.

Nevertheless, one aspect of the flash figures is worth consideration. Because of the sharp increase in stock transactions, commission earnings have grown dramatically, especially as they are being annualized based upon the August rates. Service expenditures may be increased during the quarter by more than $3.5 billion merely because of the increased volumes. As volumes cannot continue to increase each quarter at the rate by which they expanded in August (indeed, they may actually settle to more moderate levels), such growth in service expenditures must be viewed as ephemeral.

Finally, our estimates of inflationary pressures during the third quarter may exceed those contained in the flash estimates. We believe that our judgement that the deflator will accelerate during the quarter is justified, for our estimates of the personal consumption expenditures deflator show an increase in excess of 8% at annual rates during the quarter. However, composition changes could significantly alter the GNP deflator. At any rate, whatever degree of economic strength that appears to be developing in the third quarter according to the flash index has no relationship to the cumulative process of economic recovery. In traditional terms, the economy had not yet entered recovery at the beginning of September.

Quarterly Profile of GNP

	1982-I	1982-II	1982-III	1982-IV	1983-I	1983-II
Real	-5.1	2.1	-0.2	2.7	5.8	3.4
Price	4.3	4.6	7.1	6.2	6.1	6.4
Nominal	-1.0	6.8	6.8	9.1	12.2	10.0

Monthly Statistical Highlights
for September 1982

Payroll employment, -49,000; index of hours worked, +0.1%; household employment, -402,000; unemployment rate, 10.0%; personal income, +0.6%; savings rate, 6.5%; personal consumption, +1.2%; retail sales, +1.8%; auto sales, 8.2 million units, housing starts, +5.3%; housing permits, +9.1%; construction expenditures, +0.4%; business inventories, -0.1%; orders for durable goods, +2.0%; orders for nondefense capital goods, +2.4%; industrial production, +0.2%; CPI, +0.2%; PPI, +0.3%; consumption deflator, +0.4%; leading indicators, +1.0%; M1, +8.5%; M2, +8.7%.

Monthly Statistical Highlights
for October 1982

Payroll employment, +94,000; index of hours worked, +02.%; household employment, +146,000; unemployment rate, 10.1%; personal income, +0.9%; savings rate, 6.5%; personal consumption, +0.9%; retail sales, +0.8%; auto sales, 8.3 million units; housing starts, -1.3%; housing permits, -1.6%; construction expenditures, +1.7%; business inventories, +0.1%; orders for durable good, +2.5%; orders for nondefense capital goods, +2.7%; industrial production, +0.4%; CPI, unchanged; PPI, +0.3%; consumption deflator, +0.3%; leading indicators, +0.8%; M1, +4.0%; M2, +7.8%.

COMMENTARY

Employment

Since January payroll employment has decreased by more than 1 million while household employment has increased by nearly 300,000. As payrolls count jobs while households count people, a discrepancy between the two series is likely during recessions. For example, moonlighting activity is reduced. Some part-time employment also might more readily be captured in the household survey than in the payroll survey. However, the discrepancies are unusually large. Moreover, the errors appear to reside in the female population in excess of twenty years. To the extent that the labor force also is being distorted, the impact upon the unemployment rate may not be substantial.

The initial unemployment claims and the insured unemployment rate both indicate that unemployment probably increased almost 0.3 percentage points in September. Moreover, those same measures would have justified an increase in the unemployment rate during August. Whether unemployment exceeds 10% in September may depend upon the biases generated as a result of an unusually late survey. Seasonal factors will not fully incorporate the drop in employment of people under twenty-five. Also, more teachers will be at work than seasonally anticipated because of this late survey. This explains why household employment is anticipated to drop sharply in September and why the unemployment rate probably will continue to rise above 10% during the fourth quarter despite anticipated improvement in payroll employment.

Personal Income

Personal income in August was distorted by two offsetting events. Postal workers received a lump sum payment of $350 per worker in July. As no wage adjustment was forthcoming in August, government wages and salaries declined $1 billion. On the other hand, payrolls of service industries rose $4.5 billion in August, as commission earnings swelled the returns for workers in brokerage firms. In September, the government distortion will be removed, although continuing strength in equity trading may preserve some of the wage gains in the service sector. Of course, government annual wage increases reappear in October, while, on the other hand, interest income should show little growth in the next two months.

Disposable income increased less than originally anticipated in July because the IRS decided not to adjust withholding tables for those receiving incomes in excess of $37,000. Thus, only $25 billion of the $32 billion tax cut were disbursed at annual rates in July. Nothing has happened to alter the tax liability. Instead, tax payments will rise normally until early 1983 and then slow relative to taxable income as estimated tax payments are reduced in January.

Our projections indicate that savings rates will fall below early spring levels in September. This suggests that all of the tax reduction benefits will have been redeployed by that time. Further reductions in savings rates are anticipated in response to the improvement in the market value of financial assets. Of course, this assumption may prove to be too optimistic.

Current automobile pricing along with continued moderation in energy prices are expected to stimulate auto sales late in 1982 and early in 1983. After falling below our forecast in August, durable goods purchases by consumers are expected to rebound in response to these price changes. On the other hand, the moderation of prices for petroleum products will slow dollar expenditures for nondurable goods. (The price elasticities are very low for petroleum products in the near-term.) Finally, the sharp increase in service expenditures during August and September is related to stock market activity. As stock transactions return to more normal activity, the purchase of financial services should slow.

Retail Sales

The relationship of the auto sales component of retail sales to the auto component of durable goods and to unit auto sales remains a mystery. For example, the retail sales estimates show a sharp decline in auto sales during August even as unit sales were announced as increasing modestly. While consumer spending also showed a decline, the magnitude of weakness in August was much smaller than the short-fall in auto sales. Of course, all the components in the retail sales report are more volatile than their corresponding components in the outlays report accompanying the personal income estimates. Indeed, retail sales probably explain less about economic conditions than those outlays and should not be considered as definitive in measuring the direction of consumer activity. For example, retail sales declined 0.9% in August, leading most commentators to conclude that the consumer was reluctant to spend. However, the savings rate declined by more than 0.5%. Certainly, a reluctant consumer would not be reducing savings rates by that magnitude. Of course, personal income grew below anticipations, which normally leads to a decline in savings. However, the retail sales components clearly did not reflect the magnitude of consumer spending in August.

Housing and Construction

As expected, housing starts fell significantly in August once government supported multi-family units were no longer a factor. The government reportedly released another 30,000 subsidized units in September, which should bring multi-family activity to 50,000 in that month. Apparently, multi-family permits for subsidized units are registered at the time of starts. Thus, the predictability of permits has been distorted by subsidized activity.

Even with the ups and downs of multi-family units, activity in single family units remains weak. Many builders report increases in sales activity following the sharp August decline in mortgage rates, but few further increases are expected in housing starts until the beginning of 1983. Most builders simply do not want to finance inventory that will not move quickly during the winter months. Therefore, the gains generated by current mortgage rate weakness will not be apparent until the spring building season. Despite the sluggish rebound in housing activity, the subsidized housing units have been sufficient to generate increased residential expenditures. Residential activity will become even more significant early in 1983. At the same time, nonresidential activity has slumped significantly. Further weakness in nonresidential construction may develop, although our projections currently show only gradual weakness after adjustment for inflation.

Business Activity

Orders for nondefense capital goods remain unusually weak. Even with dramatic slowing in shipments during July and August, orders remain more than $2 billion below shipments on a monthly basis. As a result, no significant improvement in expenditures for capital equipment are anticipated until the second half of 1983. Capital anticipations surveys confirm that conclusion, for they show that inflation adjusted spending will decline 4.5% in the next twelve months.

The increase in business inventories during July can be fully explained by gains in auto and truck holdings. As sales simply did not rise significantly, these increased inventories will be liquidated during the remainder of the quarter. Indeed, our projections suggest that inventory investment will be slightly less robust during the third quarter than in the second. This contrasts with the flash estimates, which expect inventory investment to be slightly more robust in contributing to GNP during the summer.

Miscellaneous

We currently anticipate that the leading indicators will decline in August before rising sharply in September. Apparently, the monthly average on stock prices during August shows little gain from July. This surprising result is dictated by the fact that stock prices were falling significantly early in the month before rallying dramatically late in August and through most of September. Therefore, large contributions from stock price changes will surface in the September report. Although money balances and liquid assets will contribute significantly to gains in leading indicators during August, large gains in initial unemployment claims, a reduction in the workweek, and plunging rates for building permits and plant and equipment orders overwhelmed the positive influences. Indeed, leading indicators could fall nearly a full percentage point in August before erasing all that decline and more in September.

Financial Markets

Although the flow of funds into the credit markets from foreign investors is creating the greatest influence upon credit market rates at the present time, the Federal Reserve continues to be a relative supplier of reserves. The surge in the money stock early in September was less than could have been supported by available reserves. As those technical conditions reverse, short-term interest rates may again be subject to some downward pressure. However, commercial paper once again is yielding significantly more than the federal funds rate, after falling below that rate through much of the recession. Indeed, CD rates in early September actually were below commercial paper rates. Under normal circumstances, CD rates are 30 basis points above the commercial paper rate. Because of these rate differentials, corporations have once again entered the banking system to acquire funds. On the whole, the corporate sector is not now a significant supplier of funds to the credit markets. This is seen from the spreads that currently exist between the federal funds rate and other sensitive short-term rates.

Once the foreign flows of capital reverse direction, some upward pressures upon short-term interest rates are anticipated. The degree of interest rate pressure is not expected to be large, however. Moreover, long-term bond prices probably will retain all the gains that developed in the last three months.

Stock Market

Because of the current weakness in the economy, changes in corporate earnings are not expected to be significant either in the third or the fourth quarter. As a result, the stock market is especially sensitive to changes in interest rates at the current time. Since the rally began in mid-August, stock prices on the most popular indices have increased nearly 20%. While this change is undoubtedly dramatic, changes in long-term interest rates would have justified a 15% improvement in equity values. Thus, any over evaluation as a result of foreign capital inflows do not exceed 5%.

Now that the explosive adjustment to changes in interest rates has occurred, what is appropriate for the equity markets? According to our projections, interest rates are not expected to show any significant trend during the fourth quarter. If anything, long-term rates may rise slightly. Although operating profits probably will rise as a result of gains in real GNP, the magnitude of profit increase will not be significant. Moreover, some acceleration of industrial inflation will marginally increase the inventory valuation. As a result, the quality of earnings will decline. Moreover, the 1982 tax law will increase tax liabilities early in 1983 and beyond as a result of the reduction in the tax consequences of the investment tax credit. Gains in equity values in excess of 20% from current levels still seem likely in 1983. However, the market currently appears to be 50 points overvalued as measured by the Dow Jones. Therefore, a fourth quarter average for the Dow Jones is not expected to exceed 900.

9/27/82

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February	90459	90459	106.2	106.2	99590	99590	8.8	8.8	145.0	145.0
March	90304	90304	105.6	105.6	99492	99492	9.0	9.0	145.4	145.4
April	90083	90083	105.2	105.2	99340	99340	9.4	9.4	146.3	146.3
May	90151	90166	105.6	105.7	100117	100117	9.5	9.5	147.6	147.7
June	90010	89839	105.0	104.9	99764	99764	9.5	9.5	147.9	148.1
July	89923	89662	104.9	105.0	99808	99732	9.8	9.8	148.7	148.8
August	89863	89451	104.9	104.5	99833	99839	9.9	9.8	149.6	149.7
September	89953	89402	105.0	104.6	100008	99437	9.8	10.0	150.5	150.5
October	90126	89496	105.3	104.8	100118	99581	9.8	10.1	151.2	151.3
November	90325	89590	105.5	105.0	100221	99713	9.8	10.1	152.0	152.0
December	90497	89685	105.8	105.2	100357	99847	9.7	10.2	152.7	152.8
January 1983	90569	89864	106.0	105.5	100569	100102	9.7	10.1	153.8	153.6
February	90726	90111	106.2	105.7	100748	100399	9.6	10.0	154.9	154.4
March	90919	90281	106.3	105.9	100963	100598	9.5	9.9	156.0	155.3
April	91168	90375	106.6	106.1	101128	100808	9.5	9.9	156.6	156.2
May	91315	90537	106.9	106.2	101453	101022	9.4	9.8	157.5	157.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February	2.514	2.514	1.547	1.547	130.6	130.6	2.118	2.118	1.987	1.987
March	2.519	2.519	1.543	1.543	144.3	143.3	2.124	2.124	1.981	1.981
April	2.534	2.536	1.547	1.547	152.5	152.4	2.147	2.146	1.994	1.994
May	2.553	2.556	1.560	1.560	128.8	139.4	2.152	2.153	2.023	2.013
June	2.561	2.566	1.562	1.563	144.7	141.2	2.157	2.156	2.013	2.014
July	2.589	2.593	1.567	1.571	177.3	165.6	2.214	2.199	2.037	2.003
August	2.603	2.601	1.574	1.573	165.6	156.0	2.223	2.204	2.058	2.048
September	2.622	2.617	1.584	1.583	158.7	144.5	2.238	2.216	2.079	2.072
October	2.647	2.640	1.602	1.599	163.6	145.5	2.258	2.235	2.094	2.090
November	2.668	2.657	1.615	1.610	169.7	142.1	2.275	2.248	2.105	2.105
December	2.688	2.675	1.628	1.622	171.0	135.8	2.291	2.262	2.120	2.126
January 1983	2.704	2.690	1.640	1.635	158.6	132.0	2.297	2.275	2.139	2.143
February	2.727	2.708	1.657	1.647	156.2	132.4	2.313	2.291	2.157	2.159
March	2.744	2.728	1.669	1.660	148.4	132.6	2.325	2.309	2.175	2.176
April	2.756	2.749	1.679	1.673	140.3	137.6	2.333	2.330	2.193	2.193
May	2.777	2.768	1.688	1.685	143.3	135.4	2.351	2.344	2.208	2.209

Fore. = August Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	1928.3	1928.3	240.1	240.1	755.9	755.9	932.3	932.3	954.1	954.1
March	1922.4	1922.4	238.8	238.8	745.4	745.4	938.2	938.2	950.1	950.1
April	1935.0	1934.8	238.8	238.8	747.0	747.0	949.2	949.1	953.2	953.4
May	1963.9	1954.0	251.0	245.6	760.4	759.2	952.4	949.1	963.2	960.5
June	1953.4	1954.7	238.0	237.8	762.2	758.9	953.2	958.0	952.4	951.0
July	1977.3	1973.4	245.5	238.0	769.3	766.8	962.5	968.6	957.8	953.9
August	1997.8	1987.9	247.2	236.5	776.4	771.4	974.2	980.0	960.7	955.0
September	2019.2	2011.0	253.1	243.6	780.5	776.8	985.6	990.6	965.4	962.4
October	2033.8	2028.5	256.0	249.9	784.2	781.2	993.6	997.4	967.1	966.6
November	2045.0	2044.4	256.5	255.2	788.6	784.9	999.9	1004.3	966.7	969.5
December	2059.5	2064.1	256.7	261.6	796.6	791.8	1006.2	1010.7	967.9	974.4
January 1983	2078.4	2080.1	260.2	263.1	801.1	796.6	1017.1	1020.4	970.7	976.4
February	2095.7	2095.1	264.1	267.6	805.3	789.9	1026.3	1028.6	973.1	978.3
March	2113.3	2112.9	266.2	270.2	811.0	806.2	1036.1	1036.5	975.6	981.8
April	2130.9	2128.5	268.8	273.3	817.6	810.4	1044.5	1044.8	978.4	983.5
May	2146.3	2143.6	270.0	275.4	824.1	816.1	1052.2	1052.1	980.5	985.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	87.65	87.65	11.92	11.92	8.5	8.4	60.84	60.84	14.89	14.89
March	87.28	87.28	11.78	11.78	7.8	7.7	60.32	60.32	15.18	15.18
April	88.29	88.29	11.91	11.91	7.2	7.3	60.31	60.31	16.07	16.07
May	90.68	90.84	12.14	12.15	8.2	8.2	61.42	61.43	17.12	17.27
June	89.29	88.04	12.09	11.89	6.8	7.0	61.26	60.87	15.94	15.29
July	90.94	89.09	12.12	11.83	7.6	7.4	62.03	61.77	16.79	15.49
August	91.71	88.29	12.20	11.73	8.0	7.6	62.60	61.93	16.91	14.63
September	92.74	89.87	12.21	11.77	8.3	8.2	62.93	62.36	17.60	15.74
October	93.38	90.58	12.28	11.86	8.4	8.3	63.23	62.72	17.87	16.00
November	93.79	91.46	12.36	11.92	8.6	8.5	63.58	63.01	17.85	16.53
December	94.46	92.73	12.37	12.09	8.7	8.7	64.23	63.57	17.86	17.07
January 1983	95.23	93.28	12.46	12.12	8.8	8.8	64.59	63.95	18.18	17.21
February	96.03	93.97	12.55	12.20	8.9	9.0	64.93	64.14	18.55	17.63
March	96.74	94.84	12.63	12.26	9.0	9.1	65.39	64.72	18.72	17.86
April	97.58	95.53	12.70	12.40	9.2	9.2	65.92	65.06	18.96	18.07
May	98.20	96.22	12.65	12.43	9.3	9.3	66.44	65.52	19.15	18.27

Fore. = August Forecast

C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	0.945	0.945	0.568	0.568	0.792	0.792	222.6	222.6	142.7	142.7
March	0.931	0.931	0.621	0.621	0.851	0.851	224.6	224.6	143.7	143.7
April	0.882	0.882	0.566	0.566	0.879	0.879	226.2	226.2	142.9	142.9
May	1.075	1.066	0.631	0.631	0.944	0.944	229.2	227.7	145.5	144.5
June	0.911	0.908	0.607	0.621	0.948	0.929	232.6	230.2	147.0	146.0
July	1.130	1.195	0.615	0.625	1.063	1.062	232.4	228.5	146.3	144.3
August	0.986	1.002	0.668	0.610	0.896	0.886	232.4	232.6	145.6	146.2
September	0.908	1.055	0.652	0.622	0.852	0.967	231.4	233.5	144.4	146.1
October	1.073	1.041	0.711	0.669	0.937	0.952	234.9	237.4	146.2	147.7
November	1.120	1.089	0.730	0.703	1.004	0.974	238.5	236.0	147.9	146.2
December	1.182	1.164	0.758	0.743	1.063	1.027	242.0	239.6	149.4	147.8
January 1983	1.155	1.228	0.743	0.782	1.045	1.078	243.7	243.3	149.9	149.4
February	1.175	1.231	0.765	0.795	1.053	1.099	245.5	246.8	150.2	150.9
March	1.189	1.204	0.778	0.826	1.067	1.073	246.2	251.1	149.9	152.8
April	1.242	1.285	0.792	0.872	1.116	1.165	248.0	252.8	150.4	153.1
May	1.236	1.295	0.790	0.853	1.093	1.192	250.3	254.9	150.9	153.6

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	103.8	103.8	49.6	49.6	69.2	69.2
March	103.6	103.6	51.0	51.0	70.0	70.0
April	102.9	102.9	50.2	50.9	72.5	72.4
May	105.0	103.7	49.2	48.5	75.0	75.6
June	105.6	106.2	49.7	48.7	77.3	75.4
July	106.1	103.0	49.0	48.8	77.3	76.7
August	106.5	103.8	48.9	48.9	77.0	79.9
September	107.0	104.3	48.9	49.2	75.5	80.0
October	107.4	104.7	49.3	49.1	78.2	83.6
November	107.7	104.5	49.6	49.3	81.2	82.2
December	108.0	105.2	49.9	49.7	84.1	84.7
January 1983	108.4	105.5	50.3	50.1	85.0	87.7
February	108.7	106.0	50.9	50.0	85.9	90.8
March	108.9	106.1	50.6	50.4	86.7	94.6
April	109.3	106.3	51.0	50.7	87.7	95.8
May	109.6	106.5	51.7	50.9	89.0	97.5

Fore. = August Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	281.7	281.7	76.31	76.31	21.56	21.56	24.04	23.22
March	280.1	280.1	77.86	77.86	22.17	22.17	24.06	23.14
April	279.0	279.0	76.89	76.19	22.61	22.61	22.60	22.60
May	276.4	276.4	76.14	75.71	20.33	20.33	23.47	23.47
June	275.1	275.1	74.66	74.55	19.21	19.28	22.76	22.91
July	274.6	275.2	78.52	76.45	20.15	20.32	22.85	22.48
August	273.5	274.6	83.26	73.43	21.62	19.46	22.76	21.82
September	273.2	275.0	82.95	74.93	21.43	19.92	22.82	21.57
October	274.0	275.1	84.27	76.83	21.92	20.45	22.79	21.26
November	275.6	275.5	84.85	77.09	22.45	20.49	22.70	21.09
December	276.9	276.4	85.63	79.42	22.75	21.12	22.75	21.02
January 1983	278.0	277.4	85.98	81.06	22.96	21.62	22.83	21.28
February	279.3	278.8	86.21	83.71	22.68	22.43	22.91	21.47
March	280.6	279.9	86.43	85.22	23.07	22.93	23.00	21.65
April	282.0	281.2	87.25	84.96	23.31	22.75	23.09	21.93
May	283.6	282.6	88.29	85.53	23.56	23.15	23.15	22.16

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	516.3	513.8	4.37	4.37	142.9	142.9	72.2	72.2
March	514.7	512.8	4.49	4.49	141.7	141.7	71.7	71.7
April	516.2	514.9	4.27	4.27	140.2	140.2	70.8	70.8
May	511.5	510.4	4.67	4.67	139.4	139.2	70.4	70.3
June	508.6	512.8	4.86	4.80	138.4	138.5	69.8	69.9
July	509.3	513.4	4.82	4.72	138.2	138.7	69.5	69.9
August	507.9	512.6	4.88	4.93	138.2	138.0	69.4	69.4
September	507.6	512.3	5.01	5.02	139.1	138.2	70.0	69.4
October	510.2	512.8	5.16	5.11	140.3	138.7	70.9	69.7
November	512.9	513.6	5.24	5.07	141.5	139.4	71.5	70.1
December	514.6	514.9	5.31	5.20	143.0	146.2	72.6	70.6
January 1983	516.8	516.8	5.40	5.31	143.3	141.3	72.7	71.4
February	519.1	518.7	5.45	5.36	144.0	142.0	73.0	71.8
March	521.8	520.9	5.49	5.45	144.4	143.4	73.2	72.4
April	524.1	523.5	5.58	5.53	145.2	144.4	73.7	72.9
May	526.9	525.8	5.69	5.62	146.2	145.0	74.5	73.3

Fore. = August Forecast
C.E. = Current Expectations

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	284.1	284.1	276.9	277.3	311.6	311.6	2.0361	2.0361
March	283.3	283.3	276.5	276.9	311.0	311.0	2.0390	2.0390
April	284.0	284.0	276.7	277.3	309.9	309.9	2.0510	2.0499
May	286.7	286.7	276.8	276.8	309.6	309.5	2.0604	2.0539
June	289.7	289.7	279.7	279.7	310.7	310.2	2.0792	2.0758
July	290.9	291.4	281.4	281.3	312.6	312.9	2.0886	2.0897
August	292.9	293.1	283.6	283.0	313.4	313.4	2.0945	2.1016
September	294.0	293.7	284.9	283.7	314.2	314.1	2.1013	2.1103
October	295.5	294.0	286.5	284.5	316.9	316.0	2.1189	2.1220
November	297.6	295.1	288.7	286.2	318.7	317.6	2.1354	2.1329
December	299.7	296.4	290.9	287.7	320.5	319.2	2.1519	2.1422
January 1983	300.9	298.0	292.3	289.3	322.0	320.4	2.1623	2.1536
February	301.9	299.4	293.7	290.7	322.8	321.6	2.1725	2.1642
March	302.9	300.9	295.0	292.5	323.6	322.2	2.1828	2.1742
April	304.4	302.3	296.6	293.9	325.3	323.0	2.1954	2.1863
May	306.0	303.9	298.4	295.4	326.9	323.4	2.2068	2.1980

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	202.1	202.1	172.7	172.7	206.8	206.8	207.4	207.4	156.0	156.0
March	202.3	202.3	173.0	173.0	206.2	206.2	208.1	208.1	156.3	156.3
April	203.0	202.9	173.4	173.4	205.9	205.9	209.6	209.5	158.3	158.3
May	203.9	203.4	174.8	173.6	206.7	206.4	210.9	210.4	157.5	157.6
June	205.1	205.5	175.7	175.1	208.2	209.1	211.6	211.8	158.2	157.6
July	206.4	206.9	176.5	175.3	209.6	210.2	213.1	213.7	158.9	158.4
August	208.0	208.1	177.2	176.7	211.3	211.0	214.7	215.1	159.6	159.1
September	209.2	209.0	177.9	177.4	212.4	211.6	216.3	216.3	160.2	159.8
October	210.3	209.9	178.5	177.7	213.5	212.5	217.7	217.6	160.7	160.7
November	211.5	210.9	179.3	178.3	214.7	213.4	219.1	219.0	161.3	161.4
December	212.8	211.8	180.0	179.0	215.9	214.4	220.5	220.2	162.0	162.1
January 1983	214.1	213.0	180.8	179.7	217.2	215.6	222.1	221.6	162.6	162.9
February	215.4	214.1	181.7	180.3	218.4	216.7	223.6	223.0	163.4	163.5
March	216.6	215.2	182.6	181.1	219.6	217.5	225.0	224.4	164.2	164.3
April	217.8	216.4	183.3	182.0	220.6	218.4	226.5	226.0	164.9	165.1
May	218.9	217.6	183.9	182.8	221.5	219.5	228.0	227.4	165.8	166.0

Fore. = August Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	-387	-387	124.8	124.8	3000	3000	1473	1473	3.1	3.1
March	-1747	-1747	125.0	125.0	2999	2999	1471	1471	1.5	1.5
April	456	456	126.8	126.8	3029	3027	1477	1477	1.5	1.5
May	-2340	-2340	127.9	127.7	3052	3037	1481	1479	7.9	7.5
June	-2488	-2488	127.9	128.1	3060	3072	1472	1480	10.4	15.9
July	-1695	-1532	128.3	129.8	3094	3088	1481	1478	14.3	14.0
August	-2743	-2143	128.8	129.2	3090	3089	1475	1470	16.9	13.2
September	-2775	-2441	130.0	130.5	3125	3111	1487	1474	19.5	12.7
October	-2563	-2368	131.3	131.5	3184	3138	1503	1479	23.1	15.3
November	-3012	-2489	130.5	131.1	3205	3160	1501	1482	24.5	17.8
December	-3228	-2821	131.6	132.3	3217	3194	1495	1491	25.3	18.5
January 1983	-3363	-3042	132.3	133.2	3256	3229	1506	1499	21.3	17.3
February	-2742	-3212	132.0	134.0	3288	3254	1513	1504	15.4	15.4
March	-1934	-3111	132.9	134.5	3323	3287	1522	1512	14.6	13.9
April	-2025	-3063	133.9	135.1	3344	3315	1523	1516	12.7	14.5
May	-2545	-2642	134.6	134.8	3371	3335	1528	1517	10.6	11.7

Fore. = August Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	173.2	173.2	447.3	447.3	1848.0	1848.0	14.78	14.78	13.61	13.61
March	173.7	173.7	448.3	448.3	1865.2	1865.2	14.68	14.68	12.77	12.77
April	175.1	175.1	452.4	452.4	1880.7	1880.7	14.94	14.94	12.80	12.80
May	176.5	176.6	451.5	451.5	1897.5	1897.5	14.45	14.45	12.16	12.16
June	178.3	178.3	450.9	451.4	1906.9	1907.9	14.15	14.15	12.31	12.31
July	178.3	178.0	452.5	451.3	1917.6	1923.4	13.27	12.59	12.21	11.88
August	179.1	179.3	454.1	455.2	1928.5	1946.1	11.53	10.12	11.45	9.88
September	179.5	180.1	455.4	458.3	1938.2	1959.7	10.99	10.23	10.60	9.74
October	180.6	180.7	458.3	459.8	1957.9	1972.0	12.05	10.62	11.33	9.95
November	182.0	181.6	463.7	462.4	1980.3	1987.1	13.24	11.26	12.14	10.31
December	183.5	182.5	468.5	465.9	2001.4	2006.1	14.43	11.73	12.68	10.75
January 1983	184.3	183.2	470.4	468.1	2015.3	2021.6	13.82	11.16	12.43	10.22
February	185.1	184.2	471.7	470.4	2025.4	2037.6	12.84	10.86	11.52	9.89
March	185.9	185.0	473.1	472.7	2035.6	2053.7	11.93	11.12	11.26	10.15
April	187.3	185.8	475.9	475.3	2058.4	2067.0	11.75	11.62	10.88	10.43
May	188.8	186.7	477.9	477.0	2073.5	2078.6	11.95	10.95	11.17	10.20

	Aaa (Seasoned)		Municipals (Bond Buyer)		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1982	15.27	15.27	12.97	12.97	14.53	14.53	15.00	15.00	16.56	16.56
March	14.58	14.58	12.82	12.82	13.80	13.80	14.21	14.21	16.50	16.50
April	14.46	14.46	12.59	12.59	14.06	14.06	14.44	14.44	16.50	16.50
May	14.26	14.26	11.95	11.95	13.42	13.42	13.80	13.80	16.50	16.50
June	14.81	14.81	12.45	12.45	13.96	13.96	14.46	14.46	16.50	16.50
July	14.67	14.61	12.28	12.28	13.21	12.94	13.79	13.44	16.26	16.26
August	14.45	13.71	12.02	11.23	11.73	10.15	12.31	10.61	15.43	14.39
September	14.29	13.02	11.79	10.72	11.05	10.73	11.54	10.66	14.06	13.50
October	14.63	12.86	12.19	10.55	12.02	11.02	12.48	11.06	15.05	13.50
November	14.79	13.05	12.42	10.81	12.93	11.39	13.47	11.48	15.99	13.89
December	14.86	13.19	12.48	10.97	14.36	11.86	14.79	12.11	17.08	14.05
January 1983	14.42	13.05	11.98	10.83	14.01	11.24	14.49	11.46	17.00	14.25
February	14.21	12.83	11.70	10.57	13.04	10.82	13.53	11.05	16.05	13.76
March	14.01	12.87	11.49	10.68	12.09	11.26	12.62	11.49	14.95	13.50
April	13.97	13.02	11.37	10.85	11.95	11.75	12.38	12.02	14.75	13.50
May	13.88	12.76	11.08	10.58	12.09	11.28	12.45	11.53	15.06	13.50

Fore. = August Forecast
C.E. = Current Expectations